CORPORATE GERMANY AT THE CROSSROADS? AMERICANIZATION, COMPETITIVENESS AND PLACE DEPENDENCE

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Abstract

For a number of reasons, German multinationals have significantly internationalized their activities since the early 1980s. The flipside of the expanded scale of economic activities has been a growing dependence on global financial capital, as companies are required to be competitive in international financial as well as their product markets. Accordingly, Anglo-Saxon institutional investors have during the last few years increased their influence on industry in Germany, judging company performance from an Anglo-Saxon perspective and demanding a reform of corporate governance along the currently hegemonic organizational paradigm. This paper seeks to critically investigate claims of a cultural sea-change, using three transnationals as case-studies. It is argued that there is evidence of an Americanization process, a process most clearly reflected in the power relations between capital owners, management, and labour. The power geometry appears to have shifted in favour of equity holders and wider financial interests, a shift which in principle occurs at the expense of domestic labour. However, evidence of dynamic adjustment notwithstanding, there are strong forces of institutional persistence which stand against full convergence along Anglo-Saxon lines. Dependence on territorialized interaction structures (traditional relations to other firms, to labour and to state organizations) and on regional and national regulatory contexts plays a crucial role in explaining continuing differences.

Keywords: globalization, institutions, corporate governance, financial markets, Germany

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Introduction: Institutional Change, Recurring Relations and the German Social System of Production

There is increasing consensus within the burgeoning literature on the various aspects of globalization that we are currently witnessing a profound change in the evolution of capitalism. Some scholars even go as far as to identify a new epoch, heralding the 'advent of the global age', 'the end of history' (Fukuyama 1992) or 'the end of the nation-state' (Ohmae 1995). In contrast to these interpretations globalization is understood here as the continuation of an historical process, a process which has since the early 1970s both accelerated and assumed a new quality, but which at the time is full of internal contradictions and inconsistencies. Social relations are getting increasingly stretched in time-space, leading to a world which is more and more interconnected and interdependent (see Giddens 1994).

For many observers transnational corporations (TNC) and financial institutions are at the heart of the current round of time-space-compression (O'Brien 1992; Petrella 1996). Industrial and financial capital are seen as the prime movers in a game where territorialized and more immobile actors are at the mercy of powerful forces of dynamic change. This discourse, however, constitutes an oversimplification of the processes and forces at work. Transnationalization and corporate globalization have the dual forces of spatial homogenization and spatial fragmentation inherent in themselves (Altvater & Mahnkopf 1997; Harvey 1982). Accordingly, the end of geography and end of nation-state theses are only getting half the picture, the other half consisting of a parallel rise in the importance of place and territorialized systems of production at different spatial scales. And there are of course great varieties of disempowerment, some nation-states, for instance, having even increased the spatial reach of their actions, while others are witnessing

an erosion of their sovereignty. With regard to the former take the growing willingness of US state actors to apply rules and sanctions extraterritorially (e.g. the Helms-Burton Act).[1]

Without any doubt one can detect an increasing propensity in the (neoliberal) globalization discourse that the current round of restructuring involves competition not any longer between firms and corporations but between national production systems and variants of capitalism, with the Anglo-Saxon model apparently best suited for the current global era. It is thus no longer only firms and corporations which compete for supremacy in the global economy, but seemingly also nation-states and their institutions.

Institutions are understood here as regular, patterned behavior of people in a society and the ideas and values associated with these regularities. They are widely prevalent, highly standardized social habits and 'ways of doing things' which are embedded in the habits of a group or the customs of a people (see Hamilton 1932; Hodgson 1994; Neale 1994). In this context institutions refer to macro-level structures, such as a country's financial system or language, as well as to 'micro' social relations, for instance, the board of a bank, specific skills and values shared between workers in a plant and so on.

In Germany corporations are embedded in a peculiar national system of political-economic governance and specific social institutions which focus on high wages, skilling, innovation and long-term competitiveness as opposed to the more short-term and low wage approach of the Anglo-Saxon variant (see Kern & Sabel 1994; Streeck 1997).[2] *Markets* are politically instituted and socially regulated and regarded as creations of public policy deployed to serve public purposes, with wide areas of social life (e.g. health care, education and social insurance) traditionally not governed by market principles; *firms* are social institutions, not just networks of private contracts or the property of their shareholders. Corporate control thus is an 'insider system' involving all stakeholders (e.g. employees, suppliers,

clients, creditors, shareholders) as opposed to the Anglo-Saxon 'outsider system'. The internal order of companies is a matter of public interest and is subject to extensive social regulation by law and industrial agreement; the post-war German *state* is neither laissez-faire nor étatiste, and is best described as an enabling state; vertical fragmentation between the federal government and the *Länder* closely limits what political majorities at the national level can do, making political change very slow. Widespread, organized co-operation among competitors and bargaining between organized groups, conducted through publicly enabled *associations* is probably the most distinctive feature of the German political economy; all in all, it is through state enabled collective action and quasi-public, 'corporatist' group self-government that the German political economy generates most of the regulations and collective goods that circumscribe, correct and underpin the instituted markets of the *soziale Marktwirtschaft* (social market economy). Finally, German economic *culture* is to a large degree traditionalist, with high saving rates, comparably low level of consumer credits, and price competition being mitigated by socially established preferences for quality and an aversion to speculation.

Observers both in the country, as well as abroad[3] increasingly question the long-term stability, the competitiveness and innovativeness of German corporatism, seeing the German model as being in a state of crisis. There is a general sense of *Angst* and uncertainty as to the capacity of the society and economy to reinvent itself in the face of globalization and to develop a sustainable after-fordist version of the German Model, the Anglo-Saxon counterpart being regarded as superior in the current environment. While scholars generally agree upon the current problematic state of the German social economy, there are differences with regard to the long-term sustainability of the German Model, 'pessimists' (e.g. Albert 1992; Streeck 1997) standing against more optimistic scholars (e.g. Hollingsworth 1997; Kern & Sabel 1994).

At the heart of any social system of production is the facilitation of capital accumulation and the 'management' of potential distribution conflicts between its various stakeholders. These conflicts may arise between different uses of generated income, for instance between labour and capital, between consumers and producers, between firms or between industrial and financial capital. At the center of the 'co-ordination problem' are thus recurring relations and their social institutions. Regulation theorists have labeled these macro-level structures as institutional forms and have identified those most relevant for advanced capitalist economies (see Boyer 1990a, b). The regulation approach, however, focuses almost exclusively on the macro-level, neglecting concrete relations and their co-ordination and regulation. The transformation of contemporary social systems of production however does not simply arise out of thin air (see Boyer & Hollingsworth 1997). Rather, actors or groups of actors respond to wider systemic changes and in doing so either reproduce or further transform the way a production system is regulated (see Berndt 1998).

The focus of this paper is how specific components of social systems of production change in response to the far-reaching transformations currently underway in the global economy. It seeks to show that analytical emphasis on the micro and the meso-level, on specific institutional contexts resulting from interaction within organizations (e.g. management vs. labour) and between organizations (e.g. inter-firm relations), does justice to the coexistence of adjustment and persistence in economic relations and avoids simplistic dichotomies, such as 'flexibility vs. inflexibility', or 'dynamic change vs. institutional sclerosis'. Rather than on the well rehearsed close interrelation between the state, capital, and labour, this paper starts with German financial and industrial capital and the extent to which this crucial set of relations is being transformed in the wake of globalization and internationalization. The traditional interwovenness of finance and industry in Germany, characterized by interlocking supervisory boards, cross-capital stakes and what is called the '*Hausbankenfunktion*' (that is, traditional, long-term affiliation to one

or two banks), is in stark contrast to the 'outsider system' in the US and UK where shareholder interests assume absolute priority. However, in the context of the current shift towards a more global and transnational economy, there are hints at a possible cultural[4] change in the way German companies are governed. The following quote illustrates this claim:

> "If you want equity capital, the biggest suppliers are English and American pension funds. If you want this equity, you have to adjust to their way of thinking. You have to swallow your pride and present yourself differently."
>
> (Head of securities sales and trading at Deutsche Bank in Financial Times, 14.7.93)

This paper aims to critically investigate the following proposition: as companies increasingly compete for and become dependent on international financial capital, this may result in a growing pressure to conform with the currently dominant Anglo-Saxon standards and values. These values are in conflict with traditional corporate practices, leading to governance dilemmas and possibly culminating in what may be called 'Americanization' of German corporate governance. Empirical investigation is based on fieldwork conducted from September 1995 to June 1996, involving three case-study conglomerates in the Rhine-Ruhr agglomeration and an investigation of their relations with financial actors. Veba AG, RWE AG and Thyssen AG belong to the largest companies domestically and at the European level, and are typical representatives of Germany's extremely diversified conglomerates, but do not belong to the 'global elite' of German industry.[5] The former two in addition to their quasi-monopoly position in electricity generation and distribution own ventures in oil, chemicals and telecommunications, and are involved in waste management, construction and engineering (RWE) and trading and transportation (Veba) respectively. The traditional steel-maker Thyssen has diversified into automotive parts, elevators,

engineering, trading and services, and telecommunications. Sampling focused on the Rhine-Ruhr agglomeration in order to control for the influence of regional actors and institutions on the strategic development of the three companies. In addition to in-depth interviews with capital and labour representatives, extensive use was made of company information and the coverage of the three firms in the regional and national press.[6]

The first section of this paper gives a brief overview of the environmental pressures which underlie the recent internationalization and diversification strategies of the case-study conglomerates. Evidence for an 'Americanization' of German corporate governance is then presented in the main part, discussing shareholder activism, the implementation of the shareholder value concept and the changing power-geometry between corporate stakeholders, before an explanation for the processes at work is given. In the final section, the cultural convergence thesis is partially qualified, pointing to the duality between dynamic change, and institutional persistence and regional place dependence.

1. Political-economic Pressure and Environmental Turbulence: Upscaling and Increasing International Exposure

In line with the development at other German transnationals, the three case-study firms have during the last few years followed a strategy which can be summarized under the heading 'concentration - diversification - internationalization'. First, there is concentration on those core activities in which the firms are 'competent' and internationally competitive. Second, the conglomerates took steps to internationally expand these core activities. Third, there is a tendency towards activities with higher value-added, especially in services. And finally, the companies started to hive-off 'fringe' activities and those fields with insufficient creation of value. All this left its mark on the companies' portfolio, traditional activities such as electricity generation and distribution, or steel losing in importance.

As the conglomerates restructure their portfolios and attempt to open up new markets abroad, what evidence is there for increasing internationalization? If judged in terms of the most common indicator, the share of turn-over generated with clients outside Germany, Veba, RWE and Thyssen overall do not appear to have made major advances (Table 1). Rather, the degree of internationalization varies considerably across divisions, truly international ones such as Thyssen's conveyor, RWE's construction, or Veba's chemicals activities contrasting with divisions still very much depending on national and regional markets. Investigation of the geographical distribution of subsidiaries illustrates that only Veba has from 1990 to 1995 actively expanded its organizational space, a process resulting in a declining role of traditional scale levels, that is, the Rhine-Ruhr agglomeration and also the national level. Further cautious support for 'globalization' at Veba is given, if one investigates the share of liabilities due to 'non-consolidated group companies' and those 'payable under investor/investee relations'. A rise of these positions relative to total liabilities is generally regarded as indicator for a growing financial concentration between companies, and thus for closer financial interdependence (see Deutsche Bundesbank 1997a).[7] Veba almost doubled financial involvement in so-called '*verbundene Unternehmen*' (= connected firms) from 1993 to 1996 (see Figure 1).

Overall, corporate internationalization is perhaps most pronounced in terms of the share of employees outside Germany. Thyssen and Veba significantly increased their share of employment abroad, at the same time reducing the absolute number of their domestic work-force during the last few years (see Figure 2). The picture at RWE is more balanced, after a reduction of employment in 1995/96 once more increasing the total number of employees subsequently. Interestingly, however, the remarkable increase in 1996/97 all but concerned employment outside Germany.

However, this paper seeks to argue that the absence of clear signs for a 'globalisation' process does not mean that there is business-as-usual

at the conglomerates. There are strong external pressures on corporate decision-makers even if there is no immediate hint for active internationalization. This development may be summarized as follows. Political-economic turbulence (increasing international competition; domestic developments) results in measures to diversify the companies' traditional portfolios. What is striking in this context is the degree to which the conglomerates have adopted almost identical strategies. Despite their different sectoral background Veba, RWE, and Thyssen all ventured into telecommunications and environmental protection/technology. In doing so the companies followed a trend within German industry more generally. Diversification and attempts to expand organizational space and then confront the companies with institutional differences in various forms. This in turn exacerbates the organizational problems with which the firms have to cope. Environmental pressure resulted from two general developments. On the one hand, the companies' economic-competitive context is characterized by a deepening and expanding social division of labour, with inter-firm relations being increasingly stretched to 'higher' scale levels, be it a move from the regional to the national or from the regional and/or national to the international level. Embeddedness in a general environment of growing corporate internationalization was at the national level accompanied by a recessionary period and stagnation.

In other words, in their economic environment, the firms were faced with push- and pull-factors which influenced their own strategic responses. In addition to this, the changing political regulatory context, that is decisions and actions of state authorities at different spatial levels, also had a significant impact on the strategies chosen. For instance, deregulation and liberalization measures by national and international bodies (such as EU, WTO) have clearly prepared the ground for diversification and upscaling in telecommunications. Rather than being powerless in the face of 'globalization', government policies are actively influencing the course of developments, in principle being able both to accelerate and restrain

the process. This is all happening across different spatial scales, in a complex interaction of processes at the regional, national, and international level.

A direct consequence of the developments portrayed above has been an increasing need for equity and outside finance on the part of the three companies. A comparison of overall cash-flow to capital expenditure ratios for the periods 1985-1990 and 1991-1997 shows that there has been a marked shift at the companies, capital expenditure at Veba and Thyssen exceeding cash-flow figures in the latter period, and RWE at least experiencing a narrowing of the gap (see Figure 3).[8] Even for cash-rich firms such as the utilities the sums at stake cannot be easily funded out of the cash-flow, in particular, if one adopts an outspoken internationalization strategy such as Veba has attempted during the last few years. Furthermore, and here political regulation enters the picture again, RWE and Veba are only too aware of the fact that their quasi-natural domestic electricity monopolies are bound to come to an end after European energy markets have become fully liberalized. Both mechanisms and the limited scope of domestic financial markets in turn meant that the conglomerates increasingly had to seek financial capital internationally. In sum, in addition to selective corporate internationalization there is financial globalization, or as the Economist (6.4.96) had it with a view to corporate Germany more generally: *"Now it suddenly seems to have dawned to German managers that capital markets are as global as the markets for their goods".*

2. The Americanization of German Corporate Governance: Shareholder Value versus Stakeholder Interests

The general financial environment for the conglomerates has changed notably since the early 1990s. First, the leading domestic banks have increasingly moved into areas hitherto left to big Anglo-Saxon players (e.g. the acquisition of Morgan Grenfell and Kleinwort Benson by Deutsche Bank and Dresdner Bank). Given the historically close ties

between major banks and conglomerates in Germany, involving direct shareholdings, positions on supervisory boards as well as equity and debt financing, upscaling and adoption of Anglo-Saxon business practices by the likes of Deutsche Bank meant a sea-change for the '*Finanzplatz Deutschland*'.

Secondly, a general trend in the City of London and at other financial centers has in recent years been one of an increasing interest in the German market, a feeling stemming in part from an impression that Germany's larger and increasingly also medium-sized companies have a lot to catch up with regard to equity finance. Major international players have therefore increased their activities in Germany, moving aggressively into areas previously dominated by incumbent German banks with their more traditional and long-term approach. Most notable in this respect has been the move of Goldman Sachs to Frankfurt which culminated in a leading role as advisor on the path-breaking listing in 1993 of Daimler Benz on the New York Stock Exchange (NYSE), the first German company to make such a move.[9] Other high-profile transactions involving Rhine-Ruhr conglomerates have been Krupp's acquisition of Hoesch in 1992 (led by CS First Boston) and Krupp-Hoesch's recent hostile take-over bid for Thyssen (led by Morgan Grenfell and Goldman Sachs). All in all, access to international capital has been broadened considerably in the wake of these moves and the three conglomerates have made increasing use of this.

A direct consequence of the changing financial environment has been a growing influence of international shareholders in the country's largest companies. At Veba, the company with the most detailed figures, there has been a significant increase in the equity share of institutional shareholders since 1986, with financial institutions holding an overall equity stake of 68.3% in 1994. Within the latter group foreign institutional investors held an overall stake of 34.9 %, constituting a 13.1 percentage point rise compared to 1993. Strikingly, US American investors increased their share from 1% to 12% in the

period 1987 to 1997 (sources: company information; SZ 9.10.97).[10] There are no comparable figures for RWE and Thyssen, but foreign investors appear to have similarly increased their engagement with these companies. Both conglomerates (e.g. RWE in March 1995) have recently issued American Depository Receipt (ADR)-Programs which allow indirect trading of company shares at US stock markets. Moreover, Thyssen recently announced a threefold increase in the trading of its shares in London (source: Annual Report 1996/96). What is important however is that with an estimated 23% and 16.3% of their shares held abroad in 1996, Thyssen and RWE 'trailed' Veba, where international investors owned 43.5% (source: Deutsches Aktieninstitut, unpublished). These changes come on top of the traditional close links between industrial and financial capital in Germany, with members of the supervisory and executive boards of Deutsche Bank, Dresdner Bank or Allianz sitting on the supervisory boards of the conglomerates.

The corollary of bigger institutional and foreign involvement, however, has been increasing scrutiny of strategic decisions and attempts actively to intervene in the policies adopted by the companies' executive in recent years. German companies in general had to come to terms with increasing volatility of stocks as a result of down- and upgrading decisions on the part of foreign analysts and rating agencies. Accordingly, with Deutsche Bank and Dresdner Bank the two largest private banks lost their triple A rating at Moody's. Foreign financial capital has become more vocal in its criticism of the traditionally close and cosy relations between industrial and financial capital and of the two-tier system of corporate governance, a feature which additionally puts Anglo-Saxon financial capital in confrontation with the financial establishment in Germany (see also Deeg 1993). And there are signs that the large domestic banks are attempting to change the system in Germany (compare the Krupp-Thyssen bid in March 1997 and the involvement of Deutsche Bank and Dresdner Bank). Add to this the aggressive moves into the City of London, notably by Deutsche Bank, and an interesting and complex

pattern of power relations and conflict emerges. Cultural differences between the two financial communities have of course come into the open most clearly in the wake of the recent problems involving Morgan Grenfell and Kleinwort Benson.

As with the whole country's business establishment, the three case-study companies have also experienced pressures of this kind in the recent few years. Perhaps the most revealing incident involved RWE, when the company's special voting rights came under attack from representatives of the California Public Employees' Retirement System (Calpers), the largest public pension funds in the US, at the 1992 annual general meeting. In this first case of shareholder activism by an important Anglo-Saxon institution in Germany, the Calpers representative took issue with the '*Mehrfachstimmrechte*' (multiple voting rights) of a group of local authorities. This is an historical voting anomaly stemming from 1924 when local authorities were compensated for a devaluation of their shares. Throughout RWE's history, local authorities, most of them located in the Ruhr Area, had wielded disproportionate power, being able to influence the course of developments at the company.[11] This attempt to change corporate governance at RWE, though failing at least initially, provides a good example of the shifting power balance in German industry and in particular of the growing power of Anglo-Saxon pension funds which make up the bulk of foreign institutional investors. The lack of a comparable pension fund system in Germany[12] and the increasing demand for new sources of financial capital has forced companies to move to the international scale, a move which in turn makes companies dependent on these actors and finally, as we will see below, at least partly leads to a change in corporate governance and culture.

At Veba a comparable incident occurred a year earlier, when increased attention by Anglo-American investment analysts culminated in a damning report from London-based SG Warburg. This accused the management of failing to extract full value from the

group's highly diversified portfolio and suggested that the shares were trading at a big discount to the group's break-up value and that the company were therefore vulnerable to a takeover bid (source: Financial Times, 27.11.92). Finally, Thyssen has been subject to similar criticisms concerning its portfolio and received recommendations for a demerger and split-up similar to those carried out by firms such as General Electric, AT&T, ICI, or Hanson. Moreover, it has witnessed its last family shareholdings being transferred to institutional investors, when the remaining Thyssen heirs sold their shares to Commerzbank, which in turn passed them to German, Swiss and UK investors and pension funds.

The question now is whether there is evidence for a change along Anglo-Saxon lines, resulting in a convergence of the two systems, and whether there are counter-forces at the national or regional scale which mitigate against a process which by way of exaggeration could be termed 'Americanization'. This question is of course nothing else than a variant of the neoliberal globalization rhetoric in the face of political-economic pressure, as the above quote by the Deutsche Bank manager aptly illustrates.

2.1. Putting Anglo-Saxon business culture to work: shareholder value, return on capital and corporate organization

A good way to start this investigation is to look at recent changes in the boardroom of the conglomerates. At two of the firms there have been changes at the chief executive level which can be interpreted as a cultural sea-change. One incident involved the appointment of the head of the service and trading division Thyssen Handelsunion, Dieter Vogel, as CEO at Thyssen in March 1996. The long broken domination of the steel division notwithstanding, Thyssen's tradition as Germany's number one steel-maker had meant that the position as CEO was almost automatically granted to the respective head of Thyssen Stahl. Not surprisingly in the light of the role of foreign shareholders, at Veba, the change once more took place earlier. In 1989 the supervisory board appointed the finance director as chief

executive. This procedure appears to have already become institutionalized, given that the current CEO Ulrich Hartmann held the same position before taking over in 1993. This is an indication of the increasing importance attributed to financial issues and investor relations at Veba. Only RWE, which until 1989 did not have a chief executive, has not joined this trend and has with Dietmar Kuhnt still a CEO closely linked with traditional electricity activities. This has to be seen in the context of a continuing importance of the electricity division RWE Energie within the conglomerate and the lower share of foreign equity, constituting an interesting difference to Veba.

The sea-change within the executive boards has been accompanied by organizational changes which can be associated with an 'Americanization' process. The remainder of this section provides a brief summary of the main trends. To start with, the shareholder value (SV) concept, associated with Rappaport (1986), has in recent years become a synonym both for the apparent change of corporate culture in Germany and - from a more critical stance - for the negative effects of globalization on the German political economy. In this discourse, an apparent over-emphasis on shareholders is contrasted with a neglect of other stakeholders, above all labour. The underlying rationale of the concept is nothing new. It has for example been traditionally employed for the calculation of the adequate price in cases of sales of companies and is additionally used in Germany as a procedure to calculate the adequate value of properties ('*Ertragswertverfahren*'). What is new in Germany is the application of this procedure to assess the value of divisions, subsidiaries or business units and to use this assessment as a yardstick with which to regulate capital expenditure.[13]

Decision-makers of all three conglomerates have in the past at various points stressed their determination to follow a policy in line with the concept. Regionally and nationally, Veba once more made the running for others, speeches at the 1992 general annual meeting being credited with raising the topic for the first time in front of a wider audience

(source: Financial Times, 27.11.92). This commitment was reinforced in the 1995 annual report (page 15; own translation), where Veba additionally stressed its pioneering role:

> "Veba is committed to the shareholder-value approach and is with its company-wide introduction of cash-flow oriented regulation systems amongst the pioneers of value-oriented corporate governance in Germany and Europe."

At Thyssen, the appointment of the new chief executive has also led to a strategy oriented to return on equity. The Assistant to the Thyssen CEO said:

> CB: "In Great Britain the main criticism voiced against German conglomerates concerns the breadth of activities and the extent of diversification. Some observers demand a change."
>
> A: "Sure! This is currently happening at Thyssen in the wake of the change in the position of the chief executive."
> CB: "The predecessor came from the steel division?"
>
> A: "Exactly, and now from the service and trading division. Through this there is a different corporate culture, as a result of this the shareholder value idea will come more to the fore, people now for the first time genuinely live this [concept]."
> (Interview, 30.4.96)

Finally, in conjunction with the issuing of the ADR-Program in the US and a significant expansion of the share of equity capital held by US investors, RWE with some time-lag similarly stressed the need for an orientation on the SV-concept. Strikingly, however, the concept was until recently given far less prominence in RWE's publications than in those of Veba.

The more or less outspoken commitment to the SV-concept was then followed by a number of organizational steps which can be interpreted as convergence with the Anglo-Saxon model. The first is an ongoing shift towards Anglo-Saxon accountancy standards, a change which can again with some justification be regarded as a cultural sea-change. Along with Daimler-Benz in the wake of its NYSE listing, Veba was the first company to switch from German to US GAAP (generally accepted accounting principles). The decision was made in 1995 with a view to a future New York listing (finally made in October 1997) and can be seen as a concession to the Anglo-Saxon financial community which for long has judged German GAAP with considerable mistrust.[14] German GAAP are based on a prescriptive legal framework (e.g. HGB §§246ff; PublizitätsG), but in reflecting institutionalized routines of the German financial reporting system are as such codified representations of long-standing, traditional practices (see Giddens 1984). It should be noted that only the most important rules are formally codified and that many reflect a common understanding and are thus continuously reproduced by their application. Because German companies have traditionally received most of their capital from sources other than equity markets, above all from banks, and because of the dominance of bearer (versus Anglo-Saxon registered) shares held in trust by the banks, the GAAP are aimed more at the creditor than the investor. Creditor protection is traditionally given priority to investor interest and German GAAP therefore generally motivate companies to value their assets more conservatively and to minimize distributable earnings. *"While U.S. managers are motivated to view financial reporting and operations from the shareholders' perspective"*, Harris (1993: 3) argued, *"historical factors have induced German managers to view their role from an entity (capital) maintenance perspective"*.

It does not come as a surprise that Veba opted first for US GAAP, given the company's ambition to tap the US financial market and recalling the SG Warburg report in 1992 which explicitly criticized Veba for what is called 'conglomerate discount', that is the apparent

under-capitalization of its diverse activities due to a written down asset base. This is partly a result of the more conservative German GAAP. More importantly, however, the imposition of a conglomerate discount by the stockmarkets reflects a built-in prejudice and disliking of diversification as opposed to the currently dominant stress on focus. Not surprisingly, the conglomerates therefore had to adopt measures to appease the international financial community. The recent decision of RWE to add financial figures calculated along IAS (International Accounting Standard) reveals that pressure appears to build up and a similar move at Thyssen can be expected in the near future. Although possible consequences must not be exaggerated, it should at least be noted that the traditional German GAAP have to be seen as both the result and the cause of a far lower share of equity capital of German companies as compared to their US or UK counterparts. In 1993, for instance, large German industrial companies on average had a ratio of 22.78%, the figures for the UK and the USA at 36.78% and 36.2% respectively (source: IW 1995). The more conservative German GAAP therefore obviously provide an important protective shield.

Anglo-Saxon observers often interpret lower equity ratios as a further sign of the lack of competitiveness on the part of German industry. Such views, however, neglect important institutional differences. Rather than putting out company pension and retirement schemes to pension funds, German companies grant direct entitlements. Workers during their time at a company earn pension claims for which the firm is required to build up accruals. These accruals amount to billions of marks in Germany and because of their long-term character constitute a cheap source of finance. Pension accruals are liabilities <u>and</u> internal source of finance, and can as such be regarded as 'quasi-equity'. If these accruals are included, the gap between German companies and their international counterparts is greatly reduced (see Deutsche Bundesbank 1997b).

Secondly, and this holds in particular for Veba and RWE, the companies have considerably enhanced their information policies vis-à-vis institutional investors and analysts. Veba created the new position of 'head of investor relations' in the wake of the Warburg report and began to target two main groups of financial opinion leaders, namely bond and share analysts as 'opinion leaders and multiplicators at the financial market', and institutional investors as the 'most important group of share buyers' which 'are able to significantly influence the share prices with their investment decisions' (source: Annual Report 1994: 18; own translation). Finally, Veba switched from half-year to quarterly interim reports. Similar decisions have been made by RWE, the company also strengthening its investor relations program and the chief executive announcing the shortening of reporting intervals in May 1996. The latter issue may appear trivial at first sight, but is in fact a development which puts firms under immense pressure, the shorter reporting intervals having the side-effect that the executive has to defend its targets and strategies and has to face possible shareholder and public criticism more often. In a sense, this could lead to a reinforcing cycle and to an incentive to ensure the reporting of profits in the shorter-term. Having said this, there are however also the potentially positive effects of greater transparency in the firms' policies.

Thirdly, all three firms have taken steps to apply the SV-concept more rigorously than just changing their information policy and investor relations. What is striking is that Thyssen, RWE, and Veba have all adopted return on equity and/or capital targets, comparing them to the cost of capital and thus determining whether the company is creating or destroying value. The results are then used as yardsticks for investment and disinvestment decisions. While RWE had at the time of interviewing only hinted at setting return on capital targets between 12 and 16% and applying these benchmarks for individual subsidiaries and units (Senior Member of Group Development, RWE AG, 10.10.95), Veba has again gone furthest, working out risk-adjusted targets for all of its business units and measuring its

managers on whether they beat them or not (Financial Times, 3.9.96). Overall return on equity increased steadily from 8.7% in 1994 to 11.4% in 1995, and the conglomerate aims at a rate of 15% until the end of the millennium. Thyssen, setting an overall capital target of 12.5%, which also includes a return on equity of 15%, has used the performance of its units to allocate them to one of three groups: (i) core activities already meeting the criteria, (ii) a group of hopefuls believed to have the potential to do so in the long run, and (iii) disinvestment candidates. In this vein, the steel division was reorganized into smaller units with the aim of boosting profits.[15] Although it remains to be seen whether the goals can be achieved, this nevertheless is an indicator of the extent to which corporate strategies have started to become interwoven with concepts and practices having its origin in Anglo-Saxon capitalism.[16]

From a more abstract perspective, the fact that the 15% target has acquired something of a matter of faith at the international level can be interpreted as an indicator for convergence. As large companies increasingly expose themselves on international financial markets, they have to make sure that international investors get adequate yields. The benchmarks for investment decisions are normally alternative investments and thus interest rates. As organizational space expands, national benchmarks lose importance and international benchmarks take over. And given that the global financial markets are dominated by New York and London, benchmarks such as the US prime rate or the LIBOR (London interbank offered rate) become the yardstick with which investment decisions are judged globally. Insofar as companies have to guarantee these Anglo-Saxon standards one can therefore talk about a process of Americanization, a process which - to return to the case-study firms - is reflected in a common 15% return on equity benchmark. Again, it is increasing global competition which explains the pressure on German companies. The main international players currently surpass the 15% rate and German companies are again regarded as having to catch up (see Figure 4 which compares German with US joint-stock companies).

International expectations clearly are high, as recent forecasts by Goldman Sachs, which expect the average return on equity for German companies to rise from 10.2% in 1995 to 15.7% in 1998, illustrate (Economist 5.4.97).[17]

2.2. The changing corporate power geometry: shareholder value, labour, and the 'ratchet-effect'

The argument has so far focused on internationalization, on pressure from powerful actors on the case-study firms, and finally on organizational responses and cultural change as a result of political-economic turbulence. As pointed out earlier, the Veba and Thyssen conglomerates have during the past two or three years reduced their overall workforces. Strikingly, after steady overall employment growth during the second half of the 1980s, Veba, and RWE for the first time in their recent history reduced employment, the former from 1993 onwards, the latter in 1994/95. Overall, Veba's special position becomes visible once again, the company together with Thyssen increasing the absolute number of its foreign employees at the same time. Even at RWE, which has recently increased its total workforce again, employment abroad rose disproportionately. In the light of the findings of the previous section, these trends support the assumption that a significant shift of power has taken place within the 'triangle' of intra-firm stakeholders, that is, capital owners, management and labour. The power geometry appears to have shifted in favour of equity capital (that is, shareholders) and wider financial capital interests, a shift which in principle occurs at the expense of labour, to be more precise domestic labour. The interviewee at the Thyssen Steel workers council, for instance, said:

> CB: "It is often argued that value-oriented management is of benefit for the workforce, too. How do you judge the shareholder value concept?"
>
> A: "Well, from our point of view this is precisely not the way it works. The Thyssen stock has recently risen enormously and at

the same time they announced here [= Ruhr Area] that they aim at a labour force of 10,000 workers by the year 2,000. At the moment the official aim is 13,600. We would really wish this permanent insecurity to stop, to work with a bit more security. We don't oppose that shareholders gain as well, but this should be balanced. Here, there has been a shift to the disadvantage of the employees."

(Interview, 03.05.96)

Additional evidence for a change in the power geometry is provided by comparing dividend pay-outs with the development of profits/losses during the last 10 to 15 years (Figure 5). The picture in the case of Veba and RWE overall looks similar, both companies having been able to report profits during the whole period and raising their dividends accordingly. What is striking is that even in years of considerable profit declines, dividends remained constant, a pattern which could by analogy with Duesenberry (1949) be termed a 'ratchet effect'. In 1994 during the recent recession, Veba even raised its dividend while reporting stagnating and declining profits for the fourth consecutive year. This decision has to be seen in the context of an extensive group-wide rationalization program which was set in motion in 1993 after pre-tax earnings declined by 20% (net profits: -14.7%) and aimed at saving DM 1.2bn. Between 1994 and 1996 Veba consequently reduced its workforce by about 10,000 net employees (i.e. excluding employment change due to take-overs and sales of units). The company clearly felt obliged to justify its decision, given the following statement: *"The current drop in earnings is not strong enough to lower our dividend. We are prepared to follow a smooth rather than strict correlation between earnings and the dividend"* (source: Financial Times, 25.3.93). Finally, if one additionally takes into account that during the period 1994-1996 Veba invested DM 4.9 billion in its telecommunication activities (source: annual reports; own calculations) and if one links this with the reduction in employment, then the hypothesis of a power shift becomes plausible.

This development, increasing dividends and employment abroad, is very likely to continue in the future (compare Figure 6 which gives an estimate of future earnings).

2.3. The globalization of ideas and concepts: cultural differences and institutional distance

We have seen that international financial capital yields increasing influence on share prices and corporate strategy. International investors, analysts and other actors scrutinize the strategic development of international players, with those firms which internationalized activities most and which seek international capital obviously being more dependent on their image with these actors than others. Thus, as companies internationalize and become more dependent on other actors, a cultural divide opens. In other words, there is a conflict between different attitudes and 'ways of doing things' which manifests itself in 'institutional distance' between the actors involved. The larger institutional differences, and thus institutional distance, between interactants, the more difficult it becomes to organize and govern relations (see Berndt 1998, for a more detailed discussion of institutions and institutional distance). In an ideal world this is a conflict between an aggressive and short-term corporate culture and a system which is based on institutionalized 'checks-and-balances', where hostile takeovers are still regarded as profoundly anti-social and which has until now protected the German economy from some of the excesses besetting Anglo-Saxon economies, particularly in the 1980s, just as it has of course provided the breeding ground for the country's diversified conglomerates and 'notoriously' inflexible economy. Image and informal cultural factors are extremely important in this regard and judging from the comments by the international financial community, Veba has certainly been successful in portraying itself as the pioneer in terms of taking on board Anglo-Saxon practices. Insofar as the domestic financial community, such as the large German banks, change their attitudes firms like RWE which until now have had less direct contact with

such trends, appear to be under similar pressure and have to follow suit (see Deeg 1993).

All in all then, the adoption of Anglo-Saxon standards can be interpreted as a move to overcome and reduce institutional distance resulting from an upscaling strategy on the part of German capital. The popularity of 'Shareholder Value', 'Lean Production' or 'Just-in-time' concepts in recent years and the 'Americanization' process more generally reveal a 'globalization of ideas and concepts' which to some extent has resulted in a convergence with the Anglo-Saxon model. Apparently powerful large firms are to a certain extent locked in a vicious circle, with political-economic pressure forcing them to choose a particular diversification and upscaling strategy, a move which in turn leads to new sources of political-economic-pressure and institutional distance, bringing about new necessities to adjust and so on. The conglomerates and actors within the firms should not be portrayed as having no agency whatsoever, rather what is crucial is the point that powerful actors at one scale level look far less powerful from another, and that powerful conglomerates are at these scale levels faced with similar problems and decisions as smaller firms may be at 'lower' ones. To be more precise, what looks like powerful, monopoly capital at one spatial scale, that is from the regional and the national level, may only be a small player internationally, the competition from larger international players checking international ambitions. This is a case where organizational space (that is, the organization of crucial relations in space) can not be expanded in line with relevant space. To some extent, firms such as Veba, which seek to escape a disadvantageous situation at the national level, appear to trade the expansion of organizational space with increasing responsiveness to other powerful actors, such as financial capital.

In addition to this, market diversification is accompanied by restructuring and devaluation at traditional scale levels. Hence, upscaling is accompanied by cost cutting measures in-situ. At least from the argument so far, labour at the regional and national level in

general appears to bear the brunt of the costs of restructuring and internationalization. The performance of the Veba stock since 1993 clearly illustrates that the financial markets reward this strategy. While the stocks of all three companies have outperformed the FAZ-stock index during most of the last 13 years, Veba has only recently started to overtake its rival RWE, Veba's stock price in absolute DM-terms for the first time since 1988 surpassing that of RWE.[18]

With regard to employment, Veba in particular has seen an inverse relation between share price increase and workforce reduction during the last few years. Notwithstanding the differences between the conglomerates, similar restructuring measures to Veba's have been adopted by RWE and Thyssen. Thus, RWE's cuts in employment in 1995/96 still constitute a significant change in policy, given that RWE did not reduce employment significantly during the early-1980s recession, in contrast to Veba. Arguably even more important is RWE's recent shift away from domestic to international labour. Overall, global integration appears to disadvantage domestic labour at the expense of actors and groups of actors which operate at a wider scale level. There are signs for a shift in corporate governance, from the traditional 'insider' to an 'outsider system' dominated by shareholders. From a macro-level perspective there may be pressure on the whole political-economic system as Germany's largest conglomerates respond strategically to a changing political-economic environment.

3. The Duality of Forces of Change and Structural Persistence: the Krupp-Thyssen 'Hostile' Takeover Bid and the Place Dependence of Traditional Ties

Although there are signs for a change of corporate governance, this should not be interpreted as full convergence along Anglo-Saxon lines. Rather, the picture is much more complex, forces of dynamic change and structural persistence being present at the same time. Traditional 'ways of doing things' and affiliation counter and resist pressures for change, preventing a total overhaul of practices. The

recent bid by the Krupp-Hoesch executive to 'raid' Thyssen with the help of borrowed money illustrates this assumption particularly well.

In spring 1997, Krupp-Hoesch shocked the German public by announcing a hostile take-over bid for the larger and healthier competitor Thyssen.[19] Deutsche Bank and to a lesser extent Dresdner Bank both played a crucial role. First, because of the limited financial muscles of the 'perpetrator', they pledged the capital (DM 15bn) needed for the purchase of the shares required to gain a controlling majority. Second, their already mentioned City offshoots, Morgan Grenfell and Kleinwort Benson together with Goldman Sachs had worked out the plan down to the last detail, thus providing the know-how for the planned coup. Not surprisingly, the bid was therefore seen by the German public as a final step towards Anglo-Saxon capitalism and as the death knell for the German Model based on consensus and managed restructuring. That this should happen in the Ruhr Area, in many ways the epitome of the German system, was regarded as the ultimate proof of the extent to which the German social economy is changing. After much hype, however, the plan failed and the foes settled for a negotiated compromise, at first involving the merger of Thyssen's and Krupp-Hoesch's steel activities and in autumn 1997 even leading to agreement on a friendly merger of the two traditional conglomerates. Hence, co-operation prevailed where competition and power conflicts dominated the scene before.
The German financial elite almost certainly had greater plans. The whole deal should finally prove that German banks are just as able as their Anglo-Saxon counterparts to plan and manage such complex financial deals. So why did this plan fail? The answer is that evidence for cultural change notwithstanding, the German Model is still very much alive, structural persistence based on traditional lines of association being crucial in understanding the failure of the take-over attempt.[20]

What happened from a scale perspective was that a strategy of national and international engagement foundered on a predominantly

regional coalition built around structures of traditional affiliation. The coalition pursuing dynamic change, with national and international financial capital playing a crucial role, met a diverse group of actors and organizations which joined forces in order to defend the independence of Thyssen, their various connections with the conglomerate and thus traditional organizational space. Overall, the defense was organized around two lines of resistance. Although Thyssen's decision-makers had already started to pull together a coalition of banks and investment institutions which in their scale of activities clearly matched the Krupp coalition (amongst them international players, such as CS First Boston and Morgan Stanley, and Commerzbank which is a traditional financial partner and in connection with Allianz AG biggest single shareholder of Thyssen), engagement of national and international actors did not go beyond the early, preparatory stages, given that the second, more traditional line of defense showed early success. Here, regional networks of association turned out to be crucial. Arguably most important was the successful mobilization of the workforce of both Krupp-Hoesch and Thyssen. The hostile bid was portrayed by the representatives of Thyssen in terms of local job losses and unemployment as a result of aggressive globalization and Americanization.[21] That this rhetoric was successful is illustrated by the following quote by a member of the workers council at Krupp-Hoesch: *"I can't globalize myself, I've got a flat here. Let us therefore march, in order to make sure that Deutsche Bank is no longer able to dominate the country"* (Spiegel, 24.3.97, p. 103; own translation).

A further important element of the traditional corporatist defense was Berthold Beitz, the care-taker of the Krupp family heritage at Krupp-Hoesch, who leads the Krupp foundation which holds over 50% of the equity. Having initially given his support to the plan, Beitz changed his mind in the wake of the protests by the workforces and the regional and national public. Finally, a decisive influence was exerted by regional and national politicians. Here, the Nordrhein-Westfalen (NRW) Land government continued a tradition of involvement and

interference which only five years ago gave it a similar decisive role in the management of the merger between Hoesch and Krupp. In the same vein, regional and Federal government representatives, in the persons of Chancellor Kohl, the NRW governor Rau, and the NRW minister of economic affairs Clement, exerted pressure and eventually forced the two CEOs to negotiate the compromise outlined above, a compromise in line with traditional, consensual conflict solution. As the NRW Minister of economic affairs put it:

> "The companies' responsibility does not end at the factory gates. After all, they profit from a society which seeks to balance different interests instead of wearing itself out in unproductive conflicts"
> (Spiegel 24.3.97, p.100; own translation).

The joining of forces and co-operation in the face of external threats should however not be misinterpreted as being driven by identical interests and as being void of power asymmetries. Each party pursued its own agenda and was thus drawn into the coalition on different grounds. This is most evident in the contradictory power position of labour, wielding considerable influence when forces were joined, but being coerced into joint action by the threat of job losses and instrumentalized by the Thyssen executive. What was ironic, of course, was that the Thyssen executive, led by Dieter Vogel, who is very much linked with the cultural turn at Thyssen, managed to mobilize labour to defend the company against Krupp. This all the more so as there was evidence of strain in the relations between workers representatives at the traditional Thyssen Steel division and the new chief executive prior to the hostile bid. The gradual move away from traditional core activities resulted in greater institutional distance between traditional and new fields, a process which leads to friction and conflicts of interests between the different actors. As the interviewee at the Thyssen Steel workers council argued:

CB: "What do you think about the new CEO Vogel?"

A: "I would expect Vogel ultimately to orientate his decisions strongly on financial criteria. Within the trading and service division [Thyssen Handelsunion] hiring and firing is to some extent the rule. Some say that insofar as he now has overall responsibility [for the conglomerate] he will value the fact that over the years the steel division has to a large extent yielded profits. On the other hand, there are of course other people who say that this will not stop him to pursue his ambitious telecommunication project with all his might, and, let me say this frankly, here he seems to be quite a gambler."

(Interview, 03.05.96)

Once the immediate threat was averted and negotiations started for a merger of the two Ruhr companies, the Thyssen workforce once more found its interests under threat. Two issues stand out. The first concerns the extent of job losses associated with the 'synergies' of the merger. Observers estimate that the merger will lead to a reduction of about 8,000 jobs, 6,300 of which in the steel divisions (source: SZ 22.1.98). In an earlier agreement on the merger of steel activities labour representatives secured the written assurance that there will be no real redundancies. The agreement on 'socially cushioned' employment reduction, largely through natural fluctuation and early retirement, has become an institutionalized routine in the Ruhr Area and thus constitutes a continuation of persistent practices. It is expected that the new executive will extend this assurance to the whole Thyssen-Krupp conglomerate. The second issue is more confrontational and involves the question of the precise form of co-determination for the new company. While Krupp-Hoesch is subject to the co-determination law from 1976 (*Mitbestimmungsgesetz*), which is the most widespread type of co-determination in Germany, for historical reasons, the entire Thyssen Holding falls under the 1951 *Montanmitbestimmungsgesetz* (law for co-determination in the coal, steel, and iron industry). *Montanmitbestimmung* constitutes the most

far-reaching form of co-determination and thus the furthest labour was able to get involved in the 'insider system', legally enshrining the parity of votes between labour and shareholder representatives on the supervisory boards of all companies employing more than 1,000 workers. The 'normal' *Mitbestimmung* gives the chair of the supervisory board an extra vote in cases of a stalemate, thus guaranteeing a majority for capital representatives. In their attempt to extend the more favourable practice at Thyssen to the new company, labour representatives in both supervisory boards rejected the merger proposal. While resistance is unlikely to go as far as stopping the merger, the open opposition on the board constitutes a marked change from the past. In the case of Thyssen, for instance, this was the first stalemate in the supervisory board since introduction of the *Montanmitbestimmung*. The respective chair of the board in the past always managed to negotiate a compromise 'behind the scenes' in cases of conflicts, unanimous decisions thus being the rule in official board votes. The recent incidents of openly antagonistic relations thus constitute yet another sign for a change in the way corporate decisions are made.

In summary, the failed hostile take-over attempt reveals the existence of powerful forces of resistance against Americanization, engagement in order to protect regional spaces of interdependence countering engagement to change traditional 'ways of doing things'. In the case of the Krupp-Thyssen bid these forces were territorialized regionally, the CEO of Commerzbank explaining the failure with specific regional political structures:

> "This has a special political background. The steel question was [always] a substantial question of the Ruhr Area, after the steel workers took to the streets and structural change hasn't been made systematically."
>
> (SZ 2.9.97; own translation)

Diverging interests notwithstanding, the various actors all shared a common worldview as to the need to protect the status quo and thus displayed institutional proximity. The fact that the outcome nevertheless constituted a change in the regional economic landscape, should serve as a reminder that conflicts between forces of dynamic change and structural persistence always lead to transformation of some sort.

Conclusions

Investigation of the case-study firms' recent strategic responses to the changing political-economic environment revealed both evidence for changing corporate governance practices and for institutional persistence. The interaction structures at the heart of this paper, namely the relationship between industrial and financial capital, clearly are in a process of profound renegotiation and transformation. As large companies expand their organizational space internationally, that is, as they 'jump scales' (Smith 1993), they trade wider market presence with dependence on powerful actors controlling these spatial scales. On the one hand this includes transnational competitors, for instance, global players such as AT&T or British Telecom in telecommunications, on the other, there are international financial institutions which exert considerable influence on the policies chosen by the corporate executive. As the conglomerates expand the scale of their activities, they are becoming dependent on the perceptions and expectations of these actors, a dependence on different 'ways of doing things' which opens a gap vis-à-vis traditional practices. These institutional differences can apparently only be solved by adhering to the standards set by these powerful global actors, implying a shift towards the currently hegemonic Anglo-Saxon mode of economic governance. As Streeck (1997: 256) argued recently:

> "Globalization discriminates against modes of economic governance that require public intervention associated with a sort of state capacity that is unavailable in the anarchic world of international politics. It favours national systems like those of the

USA and Britain that have historically relied less on public-political and more on private-contractual economic governance, making them more structurally compatible with the emerging global system, and in fact enabling them to regard the latter as an extension of themselves."

The findings of this paper suggest that cultural change is most evident in the relationship between industrial and financial capital. Both the case-studies presented above and developments within corporate German more generally illustrate that a crucial pillar of the German Model is currently undergoing profound change.

Yet arguing that actors interpret and translate changes into specific strategies and in doing so feed back to the national political-economic system is not the same as declaring the death of German capitalism. We have seen that at the same time as companies reorientate themselves, this repositioning may in turn be resisted by other actors and groups attempting to maintain control over their traditional organizational space, be it the labour force confronted with a changing corporate power geometry or the national or regional state attempting to actively manage 'undesirable' developments. Cultural change and adoption of different practices and routines is always contested and the outcome therefore can never be a full-scale transformation, institutional persistence and place dependence at the regional and national level militating against Americanization. The German model is still far from being a thing of the past. This should serve as a reminder that signs for Americanization notwithstanding, there are still general institutional barriers to a full scale switch to Anglo-Saxon corporate culture. In other words, even if one cannot dispute that dramatic changes have taken place, there are forces of inertia, and here place dependence and territory come back in.

Overall, the whole situation is best described as a dialectical process, forces of dynamic change and institutional persistence being present at the same time and giving rise to governance dilemmas which have

to be solved by decision-makers. In the current period of rapid global restructuring and increasing uncertainty, pressures for change and governance dilemmas appear to be especially marked. In their attempt to solve these dilemmas organizationally, corporate decision-makers contribute to a change of governance practices. This explains why even a hitherto 'sleeping giant' such as RWE which so far had only limited exposure internationally has recently enacted radical changes. The current CEO Kuhnt recently announced plans to do away with the multiple voting right system, explicitly linking organizational change to pressure from international financial markets: *"The requirements of the financial markets will continue to lead to profound change within the RWE-concern. Insofar, the abolition of the multiple voting rights, introduced in 1924, surely has profound significance."* (SZ 23.12.97; own translation). As a consequence, local authority influence on RWE is bound to be severely diminished, a move which would allow the executive to more aggressively pursue its internationalization strategy and which weakens the regional embeddedness of the conglomerate.

Notes

1. What is happening therefore is a process of renegotiation and rescaling of relations, not the end of a particular territorial scale.

2. The following description of the core institutions is based on Streeck (1997: 241-244).

3. Compare, for instance, a recent Newsweek (16.3.96) title page which read: *'The German disease - the economy's a mess: unemployment hits a record high, and you still can't buy milk on Sunday'*.

4. Culture has increasingly become a catch-all category which is often used as a box into which to lump all aspect considered 'non-economic'. Culture and economy should however not be seen as formal opposites, but as being interrelated. The economy is culturally embedded just as cultural practices and representations are governed by market forces (see Crang 1997; McDowell 1994). Here, a firm's corporate culture(s) is seen as constituting an institutionalized system of material practices (e.g. technology and organization of production), social relations, knowledge and ways of thinking, which may be resistant to change but at the same time is also never static and achieved (see Schoenberger 1997, ch.5).

5. Despite the current dramatic transnational reorganisation of German flagship companies such as Daimler-Benz, Siemens or Hoechst it was assumed that meaningful research on a wider systemic transformation required a look at traditionally less globally exposed firms. If there were evidence for a fundamental change at these 'normal' companies, then the hypothesis of an ongoing 'Americanization' process could be justified.

6. Information on recent developments was gathered using the following approach. Before conducting 14 in-depth interviews, an overview of the strategic development with emphasis on the three companies' activities in the region was acquired, focusing on the time period since 1980. For this purpose, company reports and the newspaper archive of the Kommunalverband Ruhrgebiet were used, containing the main national and all regional and local newspapers. This general information was deepened in interviews with senior members of the central planning and strategic departments. In a second step key themes and issues were identified which were pursued further by targeting and interviewing key experts from different divisions and departments. This concerned sourcing and relations to regional suppliers, and in-depth investigation of the strategic development in newer activities, namely telecommunications and environmental technology. With regard to the relations to the international investors, it was necessary to obtain information on how the companies were viewed and judged by the international financial community. Here, a CD-ROM investigation of the Financial Times and the Economist from 1987 onwards produced valuable data and information. The choice of these data sources appeared reasonable given the importance of Anglo-Saxon investors and the crucial role of both newspapers in shaping the perceptions and attitudes of the international financial community. Again, this background material was used as a base on which to ground two interviews with a member of corporate finance of a major bank in Frankfurt.

7. Functional disintegration and the deepening of the social division of labour are thus accompanied by greater financial integration, the boundaries between firms becoming increasingly blurred (see Granovetter 1994; Sayer 1995).

8. In the financial year 1996/97 RWE's total capital expenditure exceeded the cash-flow for the first time in its recent history.

9. This decision found the German banking establishment and in particular Daimler's main shareholder Deutsche Bank wrongfooted. Moreover, the incident is also credited as having been one catalyst for Deutsche Bank to shift all investment activities to London. This should serve as a reminder not to portray the developments solely on the grounds of a one-way domination of financial over industrial capital.

10. In contrast to Anglo-Saxon countries, there are no share registers in Germany. This makes the compilation of detailed and comparable figures extremely difficult.

11. Until 1996 local authorities held the majority of votes because of 20-fold voting rights. Only recently, the raising of new equity and sale of stocks by local authorities meant that this share fell from 58.6% to 43.2%, and thus below 50% for the first time (SZ 23.10.96).

12. In 1993, for instance, total pension-fund assets in Germany amounted to $ 106bn, a figure which contrasted with $ 261.3bn in Holland and $ 717.3bn in Great Britain (source: Economist 22.4.95).

13. The SV-concept requires firms to orientate their policies towards the capital market. The aim is to generate a return on investment which should at least equal the average borrowing costs including a risk mark-up. If this return on investment is exceeded, the value of the company increases and should ideally be reflected in higher share prices.

14. The move to the NYSE, although not immediately aimed at raising fresh equity, considerably improves access to capital given that many US pension funds are only allowed to invest in companies listed in the US.

15. However, Thyssen's efforts appear to have not satisfied the financial community. In a recent evaluation study by the German SGZ-Bank, Thyssen was in contrast to RWE and Veba put into the group of firms found wanting with regard to 'value management' (SZ 5.3.97). The take-over attempt by Krupp-Hoesch, led by the financial establishment, has also to be judged against this context.

16. Ironically, this happens at a time when in the UK there are discussions about a need to rediscover a 'stakeholder society' (see Hutton 1995).

17. A note of caution is appropriate here. This concerns the fact that figures vary greatly in line with the economic cycle. Ratios for German companies, for instance, were well above the current ones before the post-unification recession (see Bundesbank 1997b).

18. The link between 'value management' and thus the adoption of Anglo-Saxon concepts becomes even more evident if one looks at the general performance of the major stocks vis-à-vis the DAX-index of Germany's top 30 stocks. The already mentioned recent study by SGZ-Bank revealed that in 1996 the value of the stocks of companies regarded as exemplary with regard to corporate policies (including both Veba and RWE) increased on average by 32.5% (DAX +28.2%), while the corporate laggards underperformed the DAX with an average increase of 'only' 22.6%. The bank explicitly emphasized a direct link between the openness of companies and the share of foreign shareholders (SZ 5.3.97; SZ 13.3.97).

19. Ironically, this was only feasible because of the fact that Thyssen's shareholder base is extremely split, and thus closer to Anglo-Saxon standards, while Krupp's shares are held by a small number of powerful shareholders, protecting the company from being at the receiving end of a hostile bid.

20. Revealingly, the Financial Times (25.3.97) commented: *"Yesterday was an inauspicious day for German capitalism. Krupp's withdrawal of its hostile bid for Thyssen is a huge embarrassment for both the steel company and its financial advisers. And it reflects badly on Germany as a place in which to do business."*

21. Thyssen chief executive Vogel at one point referred to 'wild west manners' (Guardian 25.3.97).

TABLES AND FIGURES

Table 1: Internationalization 1990 – 1995

RWE AG

	90/91	91/92	92/93	93/94	94/95	95/96
Employment	102190	105572	113642	117958	137331	132658
Percentage abroad	8·3	8·73	7·65	7·71	6·71	7·43
Turnover/Clients (DM m)	49891	51737	53094	55750	63585	65436
Percentage abroad	19·51	18·47	17·77	18·51	16·46	17·15
• of which Europe	39·40	33·87	33·11	31·40	34·99	39·21
Shareholdings (total)[1]	298	268	172	189	230	190
Percentage abroad	29·87	34·33	29·65	29·63	24·78	23·68
• of which Europe	57·30	57·61	37·25	42·86	43·86	53·33

Thyssen AG

	90/91	91/92	92/93	93/94	94/95	95/96
Employment	148557	148272	141009	131863	126987	123746
Percentage abroad	18·27	18·72	20·76	22·41	23·76	24·73
Turnover/Clients (DM mil)	36562	35755	33502	34949	39123	38673
Percentage abroad	45	44	47·6	46·9	46·3	47
• of which Europe	n.a.	n.a.	52·15	50·94	54·78	52·43
Shareholdings (total)[1]	89	48	50	56	61	57
Percentage abroad	25·84	18·75	26	21·43	18·03	17·5
• of which Europe	56·52	55·56	53·85	50·00	45·45	60·0

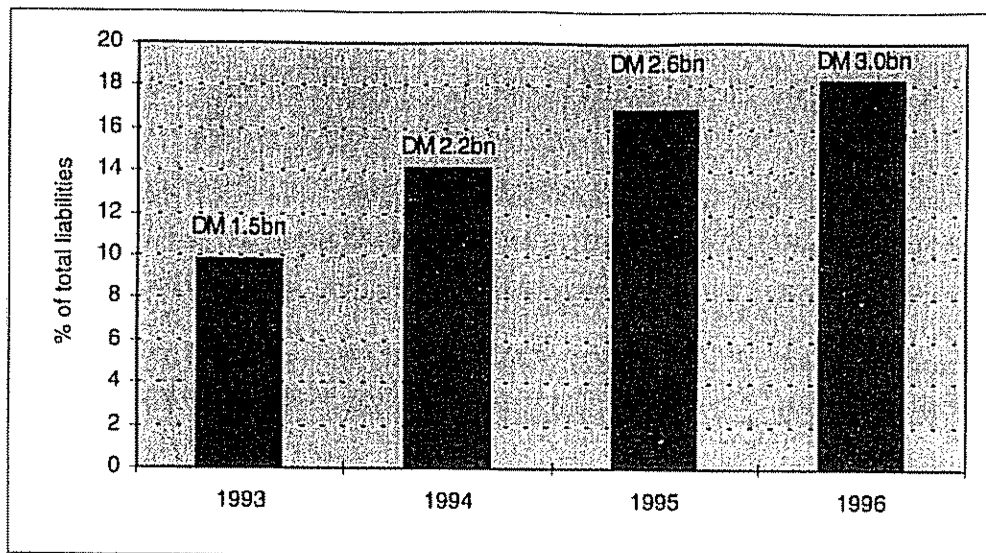
VEBA AG

	1990	1991	1992	1993	1994	1995
Employment	106877	116979	129802	128348	126875	125158
Percentage abroad	14·00	13·00	16·74	18·12	18·83	19·92
Turnover/Clients (DM mil)	54591	59505	65419	66349	71044	72372
Percentage abroad	28·76	25·52	26·66	28·25	28·36	29·96
• of which Europe	62·54	61·02	59·32	55·96	56·20	54·66
Shareholdings (total)[1]	146	151	164	178	148	156
Percentage abroad	19·18	19·87	21·95	23·6	23·65	28·21
• of which Europe	64·29	66·67	63·89	73·81	60·00	61·36

[1] Based on major consolidated shareholdings as listed in annual reports.

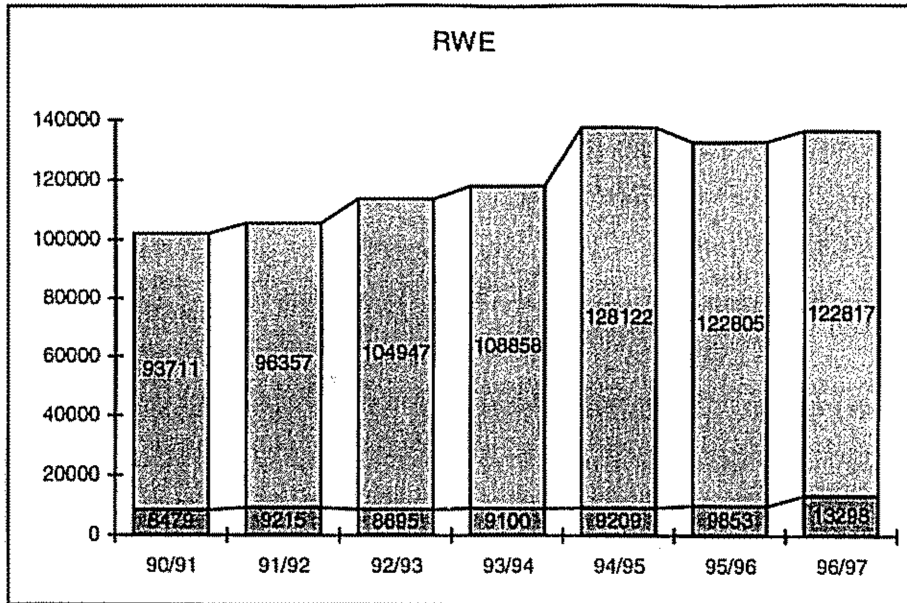
Sources: Annual Reports; own calculations.

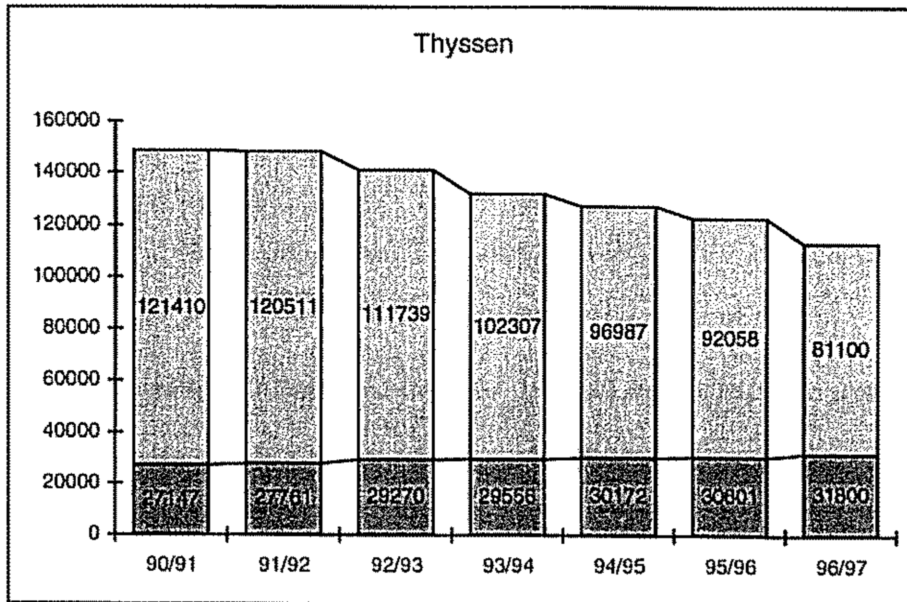
Figure 1: Veba, liabilities to 'connected firms', 1993 - 1996

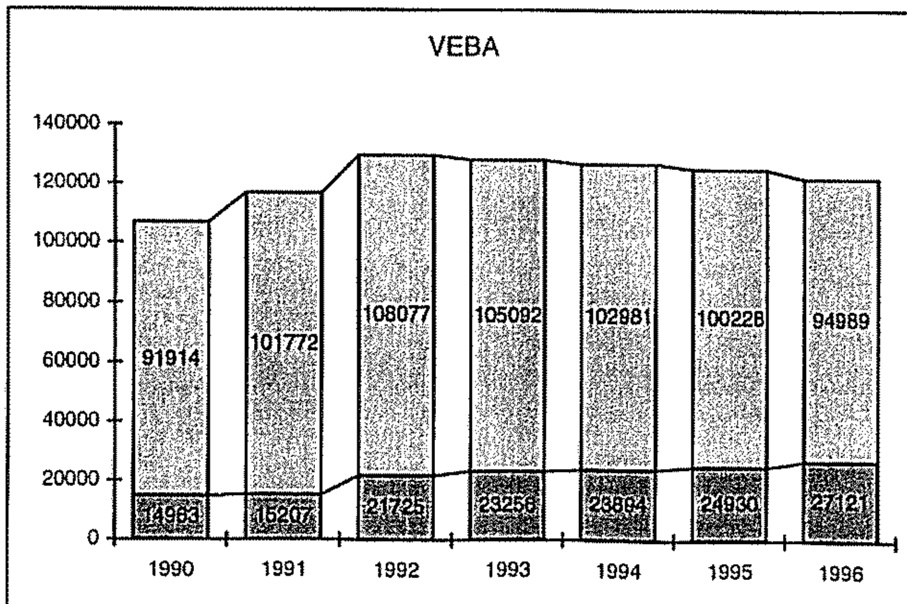


Sources: Annual Reports; own calculations.

Figure 2: Domestic and international employment

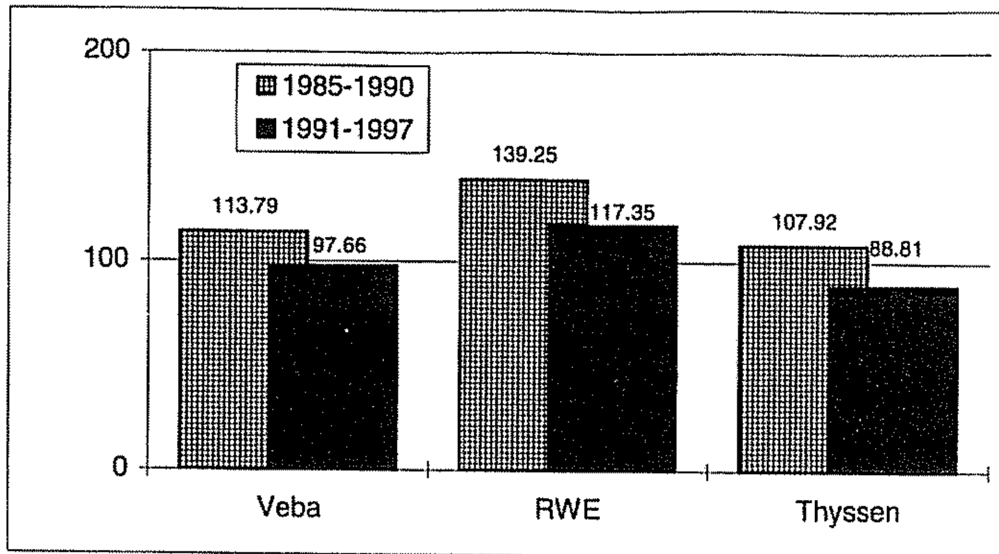






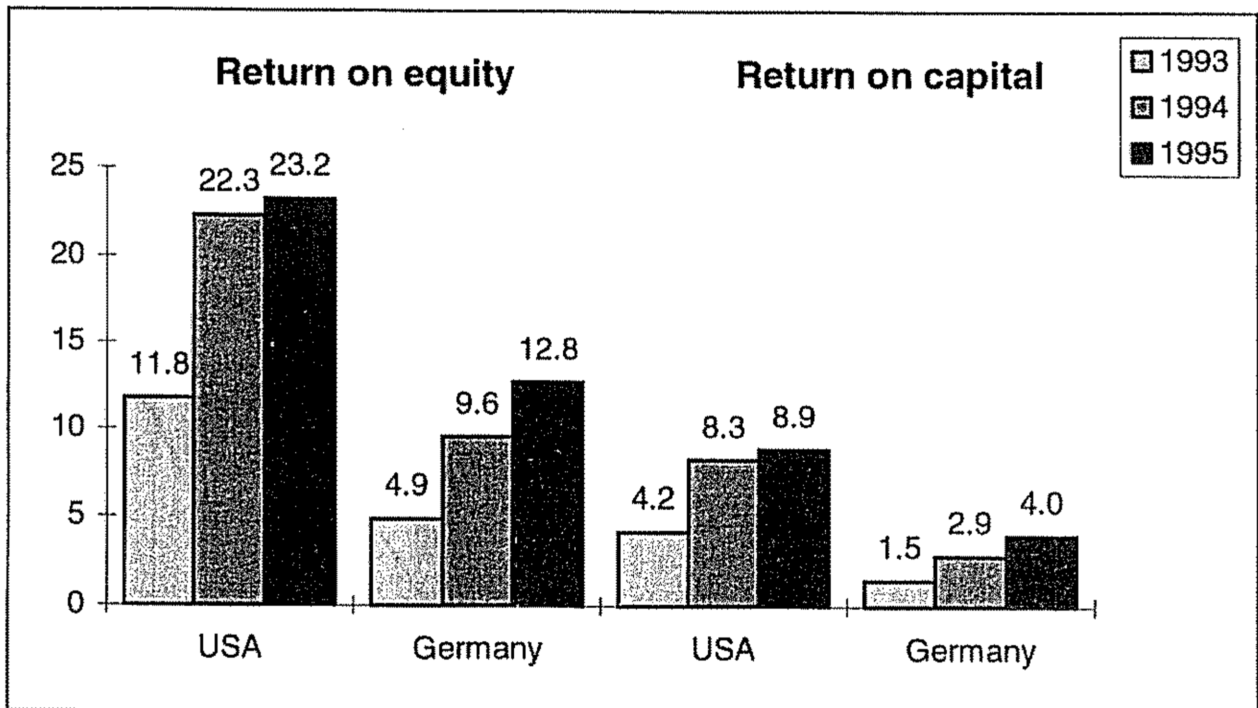
Sources: Annual Reports

Figure 3: Cash-flow/capital expenditure ratios, 1985 – 1997



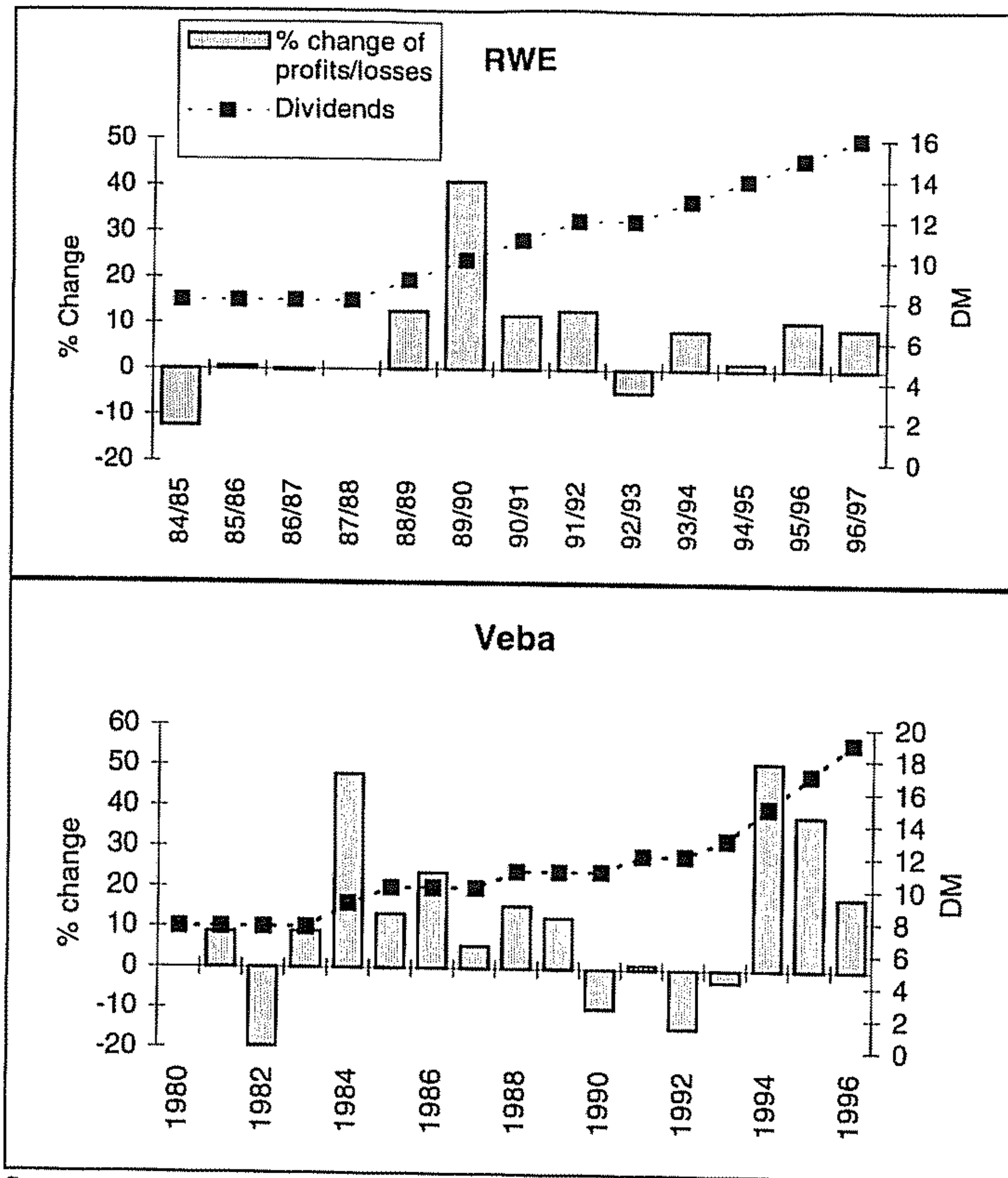
Sources: Annual Reports; own calculations.

Figure 4: Return on equity and capital, US and German companies, 1993-1995



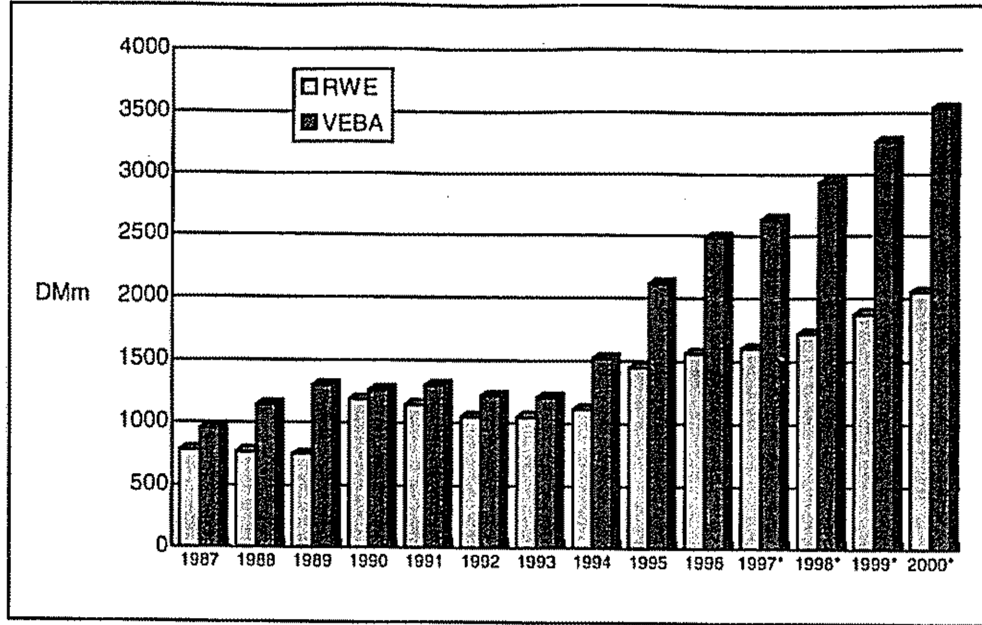
Source: Bundesbank 1997b.

Figure 5: The ratchet effect, Veba and RWE



Sources: Annual Reports; own calculations.

Figure 6: DVFA earnings 1995 - 2000, Veba and RWE



Data sources: Company reports; *Goldman Sachs 1996 (estimates).

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