Asset Manager Capitalism and National Corporate Governance Models

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Abstract

Since the end of the global financial crisis, the world-wide market dominance of universally invested asset managers like BlackRock has grown rapidly. But despite their presumable power to shape corporate and political decisions, we know little about their preferences, their potential to build interest coalitions with other business groups, and their leverage over corporate governance institutions. How does asset managers' ascend restructure interest group cleavages? Do cleavages run along sectors (financial sector vs. real economy) or borders (international challengers vs. domestic incumbents)? This paper investigates competition over a far-reaching reform that would significantly limit the powers of Germany's supervisory boards. Qualitative content analysis of public statements from over 100 stakeholders suggests that contrary to their alleged passive nature, asset managers forge coalitions with short-term oriented international investors to systematically weaken key tenets of long-term oriented corporatist institutions. In this case, however, their plans were blocked by a domestic countercoalition of 'strange bedfellows' comprised of financial and non-financial firms as well as labour unions that used their combined political leverage to prevent the reform. This paper improves our understanding of the preferences of international asset managers regarding domestic corporate governance systems and highlights the importance of coalition building as a key determinant of the political power of international finance. By aligning the costs of institutional change for incumbent interest groups, corporatist institutions continue to act as effective shields against financialization pressures.

Key words: asset managers, index funds, corporate governance, patient capital, coalition building, institutional change, qualitative content analysis

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1 Introduction

The rise of a new and omnipresent class of international investment firms continues to rattle financial systems around the globe. So called *passive asset managers*, led by American investment behemoth BlackRock, have reinvented the game of capital allocation, and—given their overwhelming financial success—reshuffle the power structures in modern capitalism (Wigglesworth 2021). In contrast to activist investors who follow a cost-intensive approach by deliberately choosing particular stocks and equities in an effort to *outperform* markets, passive investors employ complex algorithms to *track* 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' (Braun 2021; Fichtner *et al.* 2017).

While observers are quick to note the transformative character of this development, the precise implications are much less clear. What little literature we have on asset managers' political motivations, their strategies of engagement with other stakeholders, and their leverage over national institutions has painted them as truly strange beasts. Depending on the perspective, scholars have either decried their short-termist voting behaviour supportive of controversial means to inflate balance sheets and asset prices (think share buybacks) to boost shareholder value 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 asset managers inject a new dynamism into interest group politics. In principle, given the size and span of their global investments, they should be able to exert significant influence not just over corporates in their portfolios, but also on entire states and their institutions with important consequences for the power balance between financial interests and society.

At the same time, interest group literature suggests that the financial industry relies on coalition building with other producer groups to leverage their political power (Pagliari and Young 2014). In line with traditional international political economy (IPE) views, this literature typically considers the financial sector to be comprised of homogenous actors and interests which would jointly exert transformative pressure on domestic models of capitalism and lead to convergence along a financialized, Anglo-

American shareholder-value-oriented trajectory. 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 called for more careful examination of the internal diversity that different segments of finance beget (Röper 2021). Shifting the unit of analysis from sectoral interests to the preferences of individual factions of financial capital shows that preferences within the financial sector are often more heterogenous than previously assumed. 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. This debate in conjunction with the emergence of passive asset managers 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 paper 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.

In October 2018, the GCGC Commission issued a reform draft asking stakeholders for consultation. This draft contained a highly controversial amendment which proposed a reduction of the service terms for shareholder-elected supervisory board members from five to three years. Supervisory boards represent key institutions of "organised" or "coordinated" models of capitalism. As inherent part of the so-called "dual board system", they guide and monitor management, and allow veto players to interfere in firm-level decision making (Shonfield 1965; Hall and Soskice 2001). 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). Reducing supervisory board members' service time would shorten their time horizons to the detriment of a long-term vision for a firm. Therefore, critics saw in the proposed 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 an unjustified bias towards shareholder interests.

Since the consultations by the GCGC Commission were made available to the public, they allow me to trace the controversies that this amendment provoked, and the interest coalitions that formed in favour or against the proposal. Data from policy consultations is 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 to categorise 110 individual statements from various stakeholders in the GCGC Commission consultation including capital and labour representatives, national and international investors, banks, insurances, legal and academic experts, government agencies, and larger and smaller firms. In a subsequent step, I propose a novel data visualisation 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 suggests that passive asset managers sided with much more 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 a de facto one-tiered corporate governance system with board re-elections taking place every year. This would allow shareholders to leverage their substantial voting powers more often and increase pressure on the board while weakening antagonist voices.

However, contrary to a large IPE literature, I find that the coalitional cleavage did not run along sectors, but along borders. Withstanding the efforts by international investors was a heterogenous but sizable countercoalition of financial corporations, non-financial firms and labour that formed in opposition to 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. In the end, this shared coordination logic prevailed and successfully shut down the efforts by international financial investors to destabilise a central pillar of Germany's trademark corporate governance system. These results show how coalitions between 'strange bedfellows' (Mahoney 2008: 175) can constrain the political power of international asset managers. My findings 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 balance of this paper is structured as follows. The next section develops a theoretical framework to derive scenarios for political coalition-building and predicted governance outcomes. Section 3 outlines the data and methodological approach and specifies the details of the GCGC reform. In Section 4, I present the results of the qualitative content analysis and visualise the 'tug of war' between different coalitions over the proposed amendment using a novel mapping strategy. The final section discusses the role of institutional complementarities in underwriting tactical coalitions between "strange bedfellows" and concludes.

2 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 paper 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 (Strange 1998; Rubach and Sebora 1998; Hardie *et al.* 2013). In contrast, the "borders view" assumes that national institutional specificities will continue to nurture and sustain incumbent social coalitions which defend extant institutions against international challengers (Hall and Soskice 2003; Hancké *et al.* 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 (Pagliari and Young 2014; Gourevich and Shinn 2005). 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 vs workers), insider/outsider conflict (managers + workers vs owners), or conflict over management domination (owners + workers vs 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 to this foundational approach. Firstly, in Gourevitch and Shinn's world, alliances between owners, managers or workers are based on the mutual realisation among 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 make these coalitions and, by extension, their institutional outcomes highly resilient and enduring. Yet, interest group conflict often unfolds in dynamic fashion. Actors' preferences are frequently updated in light of new developments as well as the constraints of a changing environment, and coalitions are reorganised 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 2021). 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 heterogenous preferences ought to be considered as the main unit of analysis.

What, then, are our theoretical expectations regarding the preferences of specific interest groups in German corporate governance? To simplify my model, I include four sets of interest groups: activist investors, asset managers, domestic commercial banks, and domestic non-financial firms. Labour unions as sector-overarching interest group nested within domestic firms are considered separately in our analysis (see section 4).

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 often 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 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.

Formulating theoretical expectations regarding the interests of asset managers and globally active commercial banks amounts to a more challenging feat. Nascent research on the preferences of asset managers has painted an inconclusive picture. On the one hand, scholars have highlighted characteristics that clearly distinguish asset managers from activist investors. Their passive strategy provides no immediate incentive to engage actively in corporate governance; 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. These conditions have led some academic observers to conclude that passive index funds represent a new class of patient investors 'without any skin in the game' (Braun 2021; Deeg and Hardie 2016: 640; Braun 2016: 268). Others, with a whiff of optimism, do not rule out their potential to become "agents of corporate de-financialization and long-termism' (Fichtner 2020: 274).

On the other hand, a series of studies has cautioned that internal contradictions might entice asset managers to more 'passive-aggressive' behaviour than is commonly acknowledged (Fichtner *et al.* 2018). As global money managers, they remain first and foremost loyal and devoted to creating value for their shareholders. Research has shown that asset managers vote actively and highly congruent with management recommendations, proxy advisors, and activist shareholders, and often support short-termist strategies to boost stock value (Fichtner 2020; Fichtner and Heemskerk 2020). Labour rights and trade union priorities, on the other hand, find virtually no representation in index funds' voting behaviour (Committee on Worker's Capital 2020).

In a similar vein, commercial banks, too, are ambiguous actors. 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 hypothesised preference structures of individual interest groups, I can now 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.

Table 1. Political coalitions and predicted outcomes

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

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, 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 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, *apriori*, that the incumbent coalition will profit from a "home turf advantage" and dominate the group of international challengers. Since 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, 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.

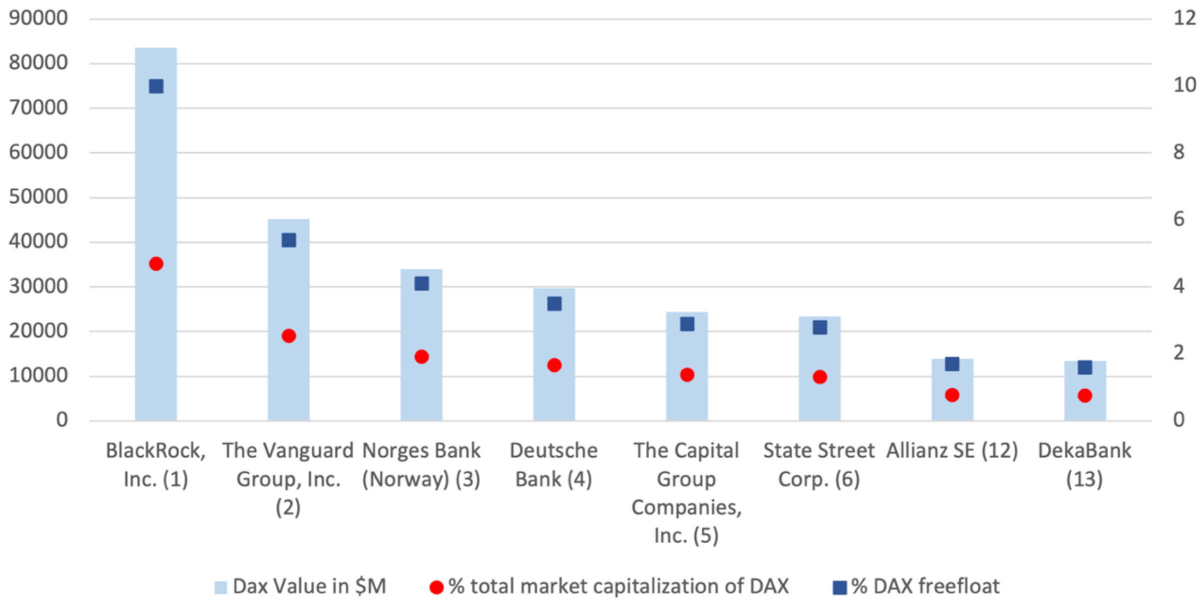
In the remainder of this paper, I test this model of political coalitions and measure interest groups' preferences vis-à-vis the German corporate governance model empirically. Qualitative content analysis allows to derive causal explanations for preference formation. The next section discusses data and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

3 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. 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). For many of the same reasons, qualitative studies remain the exception.

This paper 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 German Corporate Governance Code (GCGC). Since 2002, the GCGC provides 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).

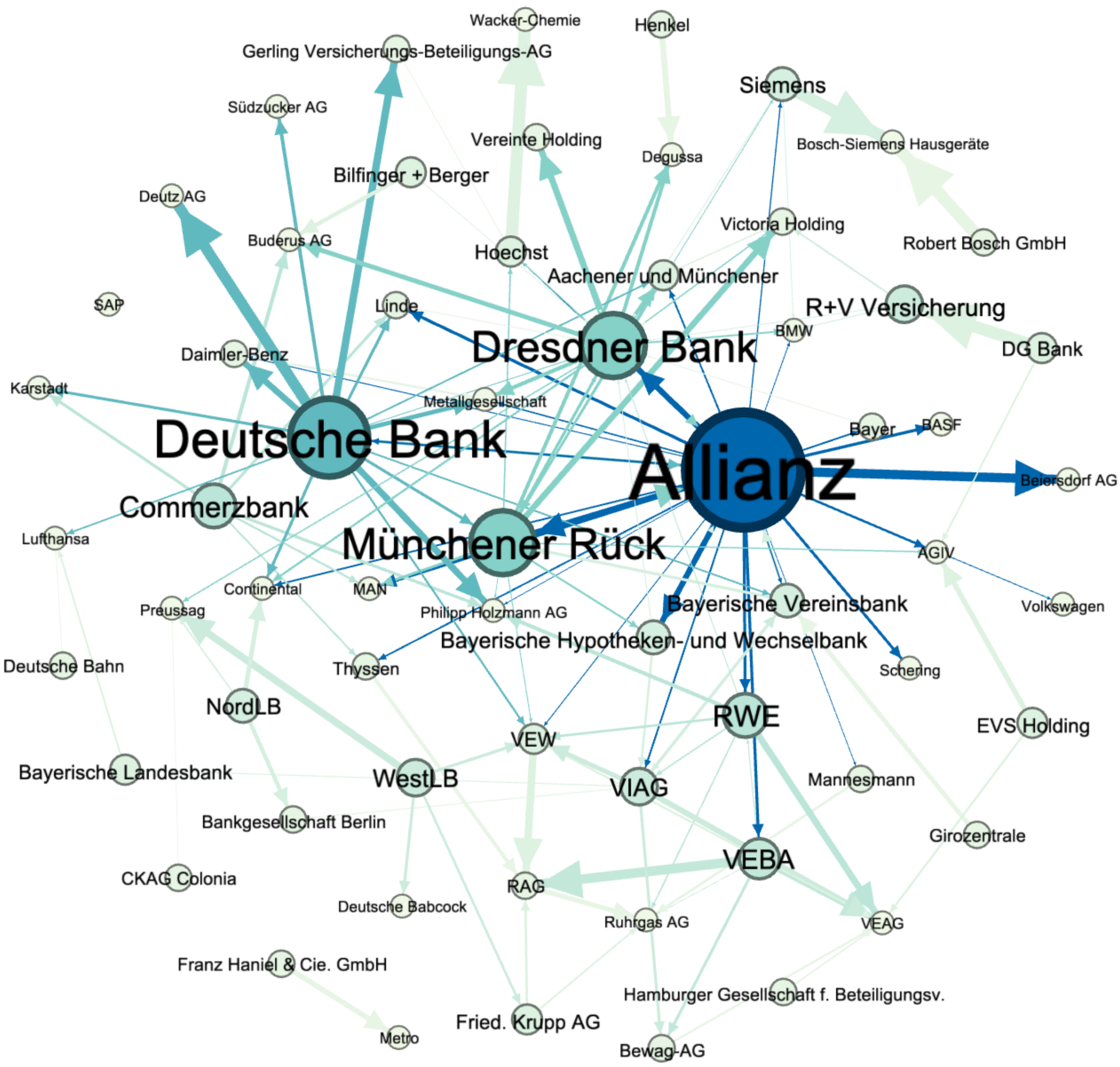
Figure 1. Selected DAX investors at group level (2020)



Source: DIRK 2021 HIS Markit; numbers in brackets indicate overall ranking

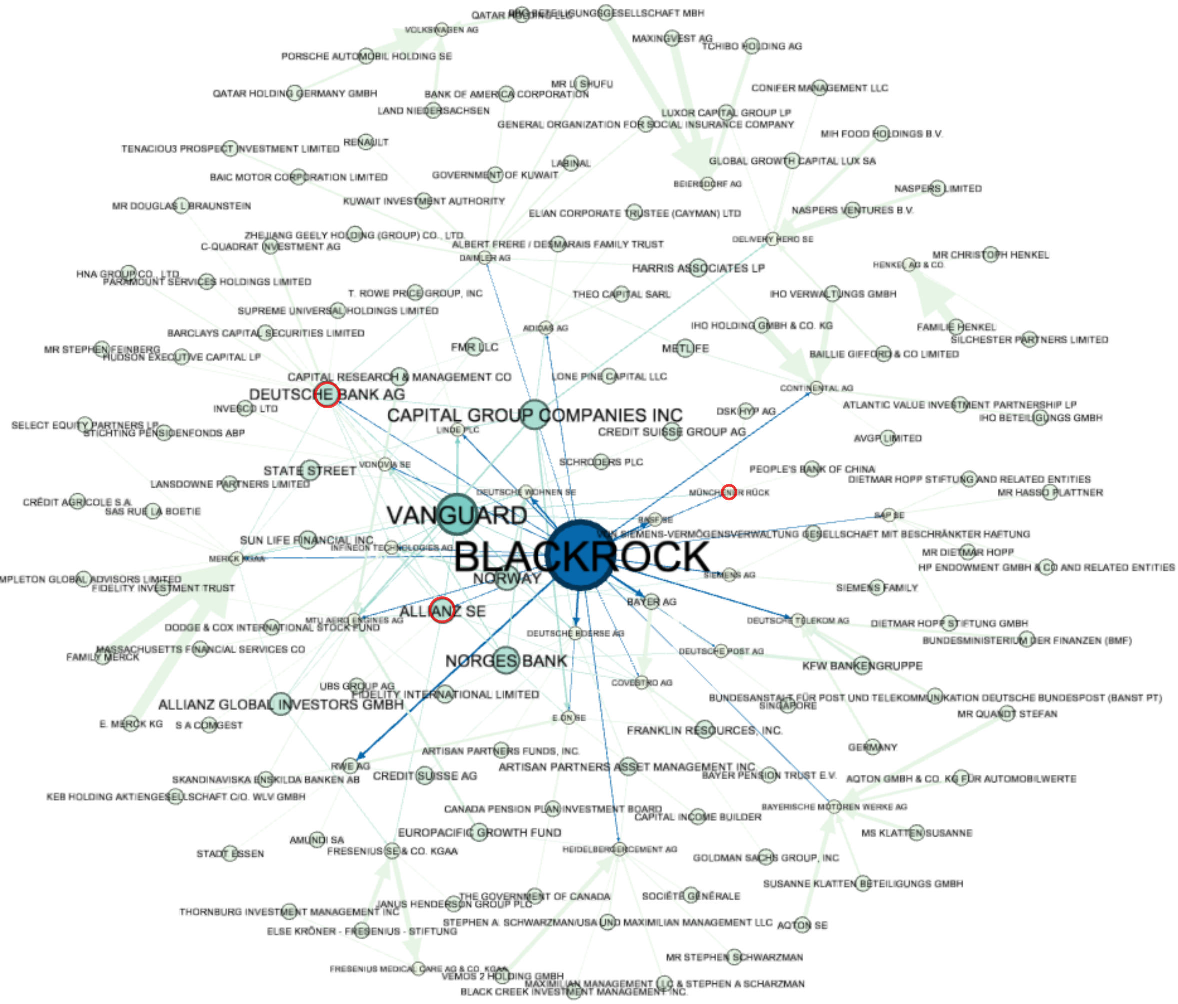
Germany presents a critical case (Eckstein 1975; Gerring 2007) to analyse interest group conflict involving international investors. The country has been at the vanguard of debates around financialization, either as a case of least-likely change (Hardie *et al.* 2013), or as one of unexpected resilience (Goyer 2011). While the comparative political economy literature characterises 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 percent of Germany's DAX30 firms and in many cases the owners of sizeable block holdings. As Figure 1 illustrates, in 2020 BlackRock alone held 10.0% of the entire 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 United States, United Kingdom, 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% of listed firms, but in 10% of cases still the largest (Fichtner and Heemskerk 2020). In a similar vein, Figures 2 and 3 present network graphs to highlight the dominant position that BlackRock holds at the centre of Germany's corporate network (*cf.* Höpner and Krempel 2004).

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



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

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



Note: Figure shows the corporate network of DAX30-listed firms and their investors with >3% of ownership in 2020. Size of nodes indicates relative number of outgoing ties. Size of edges (arrows) indicates size of investments. For reference, formerly dominant shareholders (Deutsche Bank, Münchener Rück, Allianz) highlighted in red (Source: Author's calculations, based on Orbis database).

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 five years that are enshrined in existing law (§102(1) AktG). Given the radical 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[2] and combine qualitative content analysis with a novel coalition visualisation 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' qualitative content analysis (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 this case study. Under the market logic, contracts are the dominant mode of economic organisation 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 shareholder value creation constitutes the dominant heuristic. In contrast, the coordination logic is characterised 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 dominant means of corporate engagement. These logics speak directly to our sectors-borders distinction. Where the cleavage runs

[2] URL: https://www.dcgk.de/en/consultations/archive/consultation-2018/19.html

along sectors, the market logic dominates; where it runs along borders, the coordination logic prevails.

Along these two logics, I visualise 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 have referred to a particular theme. Overlapping the results in a radar graph indicates (a) which themes and logics particular factions draw on predominantly, and (b) 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.

4 Analysis: Interest factions and coalition analysis

Out of a total of 110 statements from consulted stakeholders on the 2018 GCGC reform, 60 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 Appendix B). Different trade unions as well as works councils of many firms decided to co-sign 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 Appendix B.1).

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

Qualitative content analysis

Qualitative content analysis of 60 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 1). 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. 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.

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.[3]

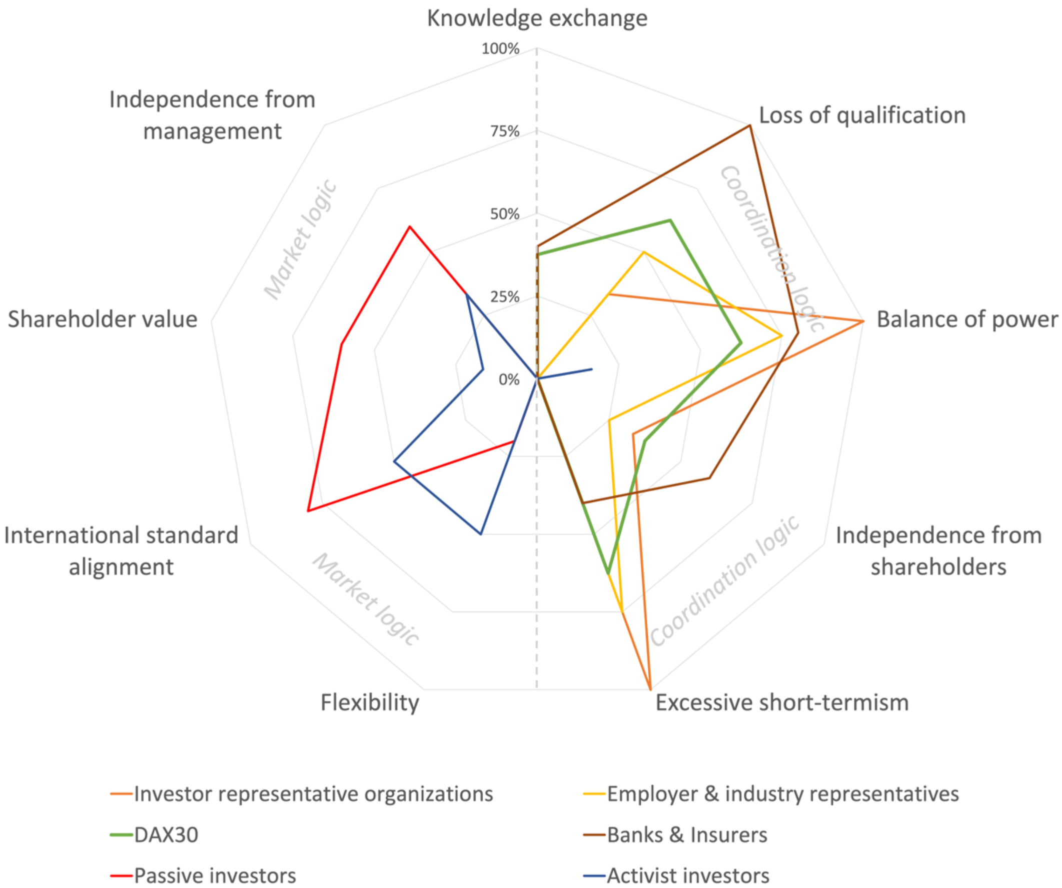
As discussed in the previous section, I use these nine themes and two overarching logics to classify different factions of stakeholders along their emphasis on particular aspects and concerns regarding the reform. By amalgamating the individual faction statements, I can identify interest overlaps between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

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 (Figure 2, next page). 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.

[3] 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 granting tenure of a maximum of five 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 not easily dismissible.

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 40). **Reading example:** Within the faction of "banks & insurers", 40% of stakeholders referred to "knowledge exchange", 100% referred to "loss of qualification", 80% referred to "balance of power", and so on. 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.

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 three 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 activist (blue) versus passive investors (red). Activist investors put strong emphasis on the prospect of increased flexibility (50%), a standard short-term perspective which 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 as their benefit because it would allow easier access and implementation of extractive investment strategies (Goyer 2007; Fichtner 2015). Interestingly, shareholder value is not a theme that activist investors emphasise 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 engagement and voting programs 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-termist 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 Figure 2 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 characterised by fewer veto players.

As Figure 2 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, 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 takes time and money to accumulate.

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 five 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 towards 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 on board 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 five 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 three 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, i.e., 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 five years to familiarise 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 three 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 capital.[4] The worker side had two main concerns. Firstly, they 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

[4] 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.

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:

> 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. (DGB 2019)

This legal detail epitomises an important and powerful lever in Germany's coordinated model of capitalism. Path-dependent complementarities stemming from past negotiations over corporate distribution of power can align the interests of producer groups that are usually competitors towards protecting 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 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 decisionmakers. The capital side, in turn, will profit from unions' involvement. As a result, symbiotic complementarities can lock actors into a pareto-efficient situation where existing institutions will be jointly defended.

To summarise my findings, qualitative content analysis and coalition mapping suggests 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 were 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-termist aims and short-termist strategies under one roof.

In contrast, the interest factions in opposition to the proposed reform appear much more heterogenous 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.

5 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 paper 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. Recent contributions have painted passive asset managers as typical patient investors who lack exit options and remain financially involved in target firms in the long run (Deeg and Hardie 2016). 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 paper 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 forges 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 paper 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 realisation 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 aligning the internal logics of antagonistic actors who operate under the same model of capitalism. Qualitative content analysis demonstrated that labour unions and 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 which show that financial actors' interests are more heterogenous and internally conflictual than commonly assumed (Röper 2021). While truly strange bedfellows, incumbent factions jointly realised 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 suggest that interest group plurality between financial and non-financial factions, but crucially also within the financial sector itself, is more pronounced than often assumed by IPE scholars (Swenson 2002; Röper 2021; *pace* Pagliari and Young 2016; 2017). 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 reforms' impact.

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

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Appendix. List of stakeholders by faction and position regarding Proposal B.1.

Faction	*Actor*	*Position*
Labor representatives	DGB	Against
	Ver.di (same as DGB)	Against
Employer & industry representatives	Bundesverband der Deutschen Industrie (BDI)	Against
	Deutscher Industrie- und Handelskammertag (DIHK)	Against
	Bundesvereinigung der Deutschen Arbeitgeberverbände (BDA)	Against
	Verband der Chemischen industrie (VCI)	Against
Supervisory board representatives	Arbeitskreis Deutscher Aufsichtsrat e.V. (AdAR)	Against
	Vereinigung der Aufsichtsräte in Deutschland e.V. (VARD)	Against
Investor representatives	Deutsche Schutzvereinigung für Wertpapierbesitz e.V. (DSW)	Against
	Deutscher Investor Relations Verband (DIRK)	Against
	Deutsches Aktieninstitut e.V.	Against
DAX30	DAX30 Prüfungsausschussvorsitzende	Against
	E.On	Against
	Deutsche Telekom	Against
	Merck KGaA	Against
	Siemens AG	Against
	Siemens Healthineers	Against
	BASF SE	Against
	Infineon	Against
Government	Federal Ministry of Finance	Against
Legal & academic experts	Deutscher Anwaltverein	Against
	Bundesrechtanwaltskammer	Against
	Institut der Wirtschaftsprüfer (IDW)	Against
	White & Castle LLP	Against
	Prof. Dr. Böcking (Goethe Universität Frankfurt)	Against
	Prof. Dr. Schüppen (lawyer)	Against
	Dr. Kaum (lawyer)	Against
	Prof. Dr. Wilhelm Haarmann (lawyer)	Against
Banks & Insurances	Joint statement by Chairmen of Supervisory Boards of Allianz, Deutsche Bank & Siemens	Against
	Commerzbank (same as DGB)	Against

	Allianz	Against
	Deutsche Bank	Against
	Gesamtverband der Deutschen Versicherungswirtschaft e.V.	Against
Others Non-DAX firms	Evonik	Against
	Grillo Werke	Against
	Satorius AG	Against
	K+S AG	Against
	Schmalenbach Gesellschaft	Against
	Fuchs Petrolub SE	Against
	Lufthansa	Against
Passive investors	BlackRock	In favor
	Vanguard	In favor
	State Street Global Advisors	In favor
	Norges Bank	In favor
	Legal & General Investment Management (LGIM)	In favor
Active Investors	Allianz Global Investors	In favor
	Aberdeen Standard Investments	In favor
	Aviva Investors	In favor
	Baillie Gifford & Co	In favor
	BMO Global Asset Management	In favor
	DWS Investment GmbH	In favor
Proxy advisors	Glass Lewis	In favor
	Pension & Investment Research Consultants Ltd. (PIRC)	In favor
Umbrella associations	International Corporate Governance Network (ICGN)	In favor
	Deutsche Vereinigung für Finanzanalyse und Asset Management e.V. (DVFA)	In favor
	Aufsichtsräte Mittelstand in Deutschland e.V. (ArMiD)	In favor
	ProSiebenSat.1 Media SE	Undecided
	Prof. Dr. von Werder (TU Berlin)	Undecided
	Vereinigung für Unternehmens- und Gesellschaftsrecht (VGR)	Undecided
	IVOX Glass Lewis	Undecided
	Stiftung Familienunternehmen	No statement
	AOK	No statement
	Dr. Maximilian Zimmerer (Münchener Rück)	No statement
	HKP	No statement
	Dr. Stefan Mutter (lawyer)	No statement
	Merck (Dr. Kuhnert)	No statement
	Mercer	No statement
	DAX Kreis	No statement

Flossbach von Storch AG	No statement
METRO AG	No statement
Linklaters	No statement
Expert Corporate Governance Services (ECGS)	No statement
Prof. Dr. Küpper (LMU München)	No statement
Prof. Dr. Schwalbach (HU Berlin)	No statement
Kion Group AG	No statement
Deutsches Institut für Effizientprüfung	No statement
Frankfurt University of Applied Sciences	No statement
Schmalenbach-Gesellschaft für Betriebswirtschaftslehre e.V.	No statement
CMS Hasche Sigle	No statement
Schmid (PwC Switzerland) and Prof. Dr. Wagner (University of Zurich)	No statement
Better Finance	No statement
Bundesverband Investment und Assetmanagement e.V. (BVI)	No statement
Willis Towers Watson GmbH	No statement
Fidelity International	No statement
Vonovia	No statement
Aareal Bank	No statement
Abschlussprüferaufsichtsstelle APAS beim Bundesamt für Wirtschaft und Ausfuhrkontrolle	No statement
Dr. Bangert Consulting	No statement
Deutsche Börse AG	No statement
Dr. Backhaus (Rechtsanwalt)	No statement
Dr. Kunz (Rechtsanwalt)	No statement
European School of Governance	No statement
Mrs. Anke Linnartz	No statement
Hermes Investment Management	No statement
Mr. Tomkos	No statement
Mr. Hexel	No statement
RPMI Railpen	No statement
Research Group on Sustainable Finance (Universität Hamburg)	No statement
Institut für Organisationsökonomik (Westfälische Wilhelms-Universität Universität Münster)	No statement
Taylor Wessing	No statement
Aufsichtsratsvorsitzende Aareal Bank, Commerzbank, Deutsche Bank	No statement