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# The (Not Entirely) Financialized Enterprise – A Conceptual Proposal

*Michael Faust & Jürgen Kädtler* *

**Abstract:** »*Das (nicht ganz) finanzialisierte Unternehmen. Ein konzeptioneller Vorschlag*«. Against the background of financialization being applied as a sort of catch-all category for corporate reorganization and especially the deterioration of labor and working conditions the paper presents the concept of the "multi-referential enterprise." Capital market expectations put established labor relations under a new pressure, but competing ideas remain relevant as a reference in both institutional reform processes and everyday decision making at firm level, including labor relations. Respective power positions also depend on rights anchored in labor law, collective bargaining, and labor market regulations as well as on what happens to sources of primary power of the respective workforce due to labor market conditions, technological change, and pressures from value chain reorganization and globalization. Hence, what unions and works councils eventually have to concede in negotiations is not just a matter of the degree of financialization but of a variety of other structurations of the field and respective companies.

**Keywords:** Financialization, labor relations, conventions, social fields, multi-referential enterprise.

## 1. Introduction: Financialization – A Somehow "Fuzzy" Research Agenda

Financialization, financial market capitalism, financialized capitalism, etc. have come up as core concepts in socio-economic analysis since the 1990s. These different concepts agree with each other in the common perception that financial markets and financial market actors have become more and more important for economic action and economic actors as well as for politics and the development of capitalist societies.

Thus different and differently accentuated issues have been subsumed under financialization, with their relevance and meaning changing over time. At the

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beginning, the focus was on shareholder-value management and respective concepts of the enterprise and its governance, also addressed as "control-financialization" (Deeg 2011). Subsequently a broader conceptualization came up, focusing more on macro-economic aspects such as the redistribution of incomes and profits, stemming increasingly from "financial channels" instead from trade and manufacturing (Krippner 2005; Epstein 2005), resulting in a hypertrophic expansion of the whole financial sector. This second strand that was also addressed as "profit-financialization" (Deeg 2011) often associated itself with the notion of an emerging new finance-led growth regime or in any case a new stage of capitalist development, also addressed as "strong financialization view" (Karwowski, Shabani and Stockhamer 2017, 3). And yet others were interested in the financialization of everyday life or in the implementation of financial indicators in any social situation (for an overview cf. van der Zwan 2014).

In consequence, objections have been raised against a "conceptual [over] stretching" of the concept of financialization, when the tendency to cover ever-larger object areas makes it become "fuzzy" at first or even an "empty abstraction" at last (cf. Engelen 2008, 113), thereby losing its heuristic capacity.

However, it is not just heterogeneity in definitions and operationalization of financialization for empirical research that brings about contradictory results regarding the effects of financialization on investment, innovation, employment, working conditions, labor relations, etc. In addition, there is a lack of contextualization of mechanisms, and additional structurations that may compete with or at least modify or specify the effects of financialization remain unconsidered. This becomes obvious in particular by transnational comparison, when varied institutional embeddedness modify, attenuate, divert, but in any case substantiate hypothized effects of financialization (Faust 2011; Gospel, Pendleton and Vitols 2014; Karwowski, Shabani and Stockhamer 2017). But also within national boarders such contextualization matters, with respect to the emergence of "institutional sub-systems" (Deeg 2005) or to "capitalist diversity" (Lane and Wood 2011) within national models of capitalism. As a result we witness varying degrees or "translations" of financialization, which are likely to modify its hypothetical "pure" effects.

In the following, we focus on the financialization of the enterprise (control financialization). We concur with the critical appraisal of the state of financialization research, especially with the skepticism with respect to comprehensive and detailed propositions concerning *the* effects of financialization on *the* enterprise. Against this background, in the following Section 2, we will discuss an ambitious proposal for a comprehensive concept of financialization, presented by Olivier Favereau (2016). In Section 3 we will develop our own heuristic for the empirical analysis of financialization(s) on the company level, referring to a concept of social fields inspired by Jens Beckert (2010), in which the enterprise remains multi-referential. In Section 4 we will demonstrate the empirical relevance of our argument, drawing on empirical research in the German context. Section 5 presents some brief conclusions.

## 2. Financialization as a "Great Deformation"

An ambitious concept of financialization proposing to integrate the micro-, meso-, and macro-dimensions of economic action has been presented recently by Olivier Favereau (2016). Favereau draws on a heuristic of "stylized facts," proposed by Nicholas Kaldor originally as a methodology to characterize given growth regimes based on empirical observation. Presenting two lists of stylized facts, characterizing – "as consensually as possible" (Favereau 2016, 2) – recent developments of the financial sphere and of labor relations, the author's ambition is "to prove and explain a meaningful relationship between these two orders of phenomena" (ibid.). So the intention is explicitly to go beyond presenting more or less plausible correlations but to identify causal mechanisms constituting an integrated theory of financialization and its implications especially for labor and labor relations.[1]

The linchpin of the approach is the assumption of "a Great Deformation of the historic and legal nature of the typical enterprise" (ibid.) by the establishment of "a new *regime of inter-subjectivity and normativity*" (ibid., 37, emphasis in original). On the one hand, there is the legal perception *and* the effective reconfiguration of the enterprise as a "nesting of [contractual] agency relations" (ibid., 41), focused on aligning the interests of managers to those of shareholders as owners and residual claimants. On the other hand, there is the implementation of an all-encompassing system of quantified evaluation and reporting, making the reality of financial numbers the only reality individuals in the company may refer to in order to justify themselves and their performance. It is the legal dimension of this transformation that is put forward as essential. The enterprise is not just perceived as a nesting of agency relations with shareholders as residual and (therefore) decisive claimants, as one conventional perspective among others. This perception becomes material reality by *de facto* institutionalization, caused by a reinterpretation of existing corporate law based on agency theory *and* by this reinterpretation becoming generally binding. As a result of this twofold transformation agency on the meso and the micro level is presented as being unilaterally and unambiguously determined by the pressure

[1] We understand the concept presented as one addressing financialization in general and not a particular case, and we take the analysis of the financialized (or deformed) enterprise as dealing with an empirically founded real type. However, there remains some ambiguity when the author refers positively to codetermination and the German and Scandinavian model (Favereau 2016, 65) for alternative perspectives, which are also financialized (more or less or in a particular manner).

of shareholders on management. And the perspective of *homo oeconomicus* is presented as the only (or at least the only relevant) effective guideline for individual action within the enterprise:

> *In the same way as the enterprise is forcefully restored to the control of the company (société anonyme in French), the ordinary person – whether or not he or she so wishes – is returned to the control of homo oeconomicus, with whom everyone must comply.* Economy has its reasons which Reason cannot simply ignore, but must honour. Financialisation, at an anthropological level, is homogeneous with everything we have identified, at the meso-economic level (the enterprise). (Favereau 2016, 59, emphasis in original)

Making the interlock between agency theory and the omnipresence of quantified in-depth controlling and evaluation, the core of financialization on the company level is obviously a very promising concept. However, in its actual version, we see two shortcomings to be dealt with. Firstly we question the assumption that the financialized company could be nothing but financialized, i.e., completely determined by agency theory and quantified controlling. And secondly we do not see that all deterioration of working conditions and labor relations characterized (quite) adequately by stylized facts can be explained by financialization. The principal focus of what follows will be on the first topic. With respect to the second we will confine ourselves to some casual remarks.

## 2.1 Financialization and Management – No Choice?

March (1988), Simon (1979), but also Child (1997), Bernoux (1995), and not least convention theorists portrayed the reality of the enterprise/corporation as the situated outcome of bargaining, negotiating, and strategic choice, based on "bounded rationality" and on a plurality of rationalities and interest, drawing on more or less stable power resources and structures of opportunity. In contrast, Favereau in his recent analysis presents the financialized enterprise as corporate governance theory and concepts of shareholder value management and *homo oeconomicus* brought to strict organisational and even anthropological reality. Accordingly the agency of individuals in business organizations appears as being reduced to individual rational choice behavior instead of being based on the capacity to navigate between different conventional rationalities, as convention theorists such as Dodier (1991) or Boltanski and Thévenot (2006) explicitly supposed.[2] As a result, we find a somehow paradoxical dialectic, at least against the background of our reading of conventional economics: Developed mainly as a fundamental critic of neoclassical rational choice theory under the conditions of financialization they seem to end up with delivering an

[2] Our reading of convention economics or convention theory refers to the logic of "grammar" of different orders of justification developed by Boltanski and Thévenot (not so much on their specific inventory of *cités*) and to a perception of legitimacy and rationality as intertwined dimensions of "justification."

alternative explanation for the performativity of rational-choice economics as an empirical reality.

As the actors (*de facto* reduced to agents) on the meso and micro level of the enterprise are perceived as being locked hermetically in the logic of this arrangement, the impetus for revising the deformation of the enterprise and bringing it "back to work" (Favereau 2016, 70) can only come from outside via political intervention establishing an alternative legal framework.

On closer inspection, there are considerable weaknesses to be recognized in this strong and encompassing concept of financialization. These refer particularly to one "stylized fact," when stylized facts are defined as descriptions of empirical economic reality "as consensual as possible" (Favereau 2016, 2). Favereau introduces the "loss of independence of management in relation to finance" (Favereau 2016, 15) as the first and fundamental "stylized fact" referring to the sphere of the enterprise and labor relations. However, this is rather not a consensual empirical fact, but a theoretical proposal full of ambitious and controversial preconditions. It is by no means evident to what extent a particular constellation of corporate ownership (like that of listed companies) and respective governance principles could provide an explanation for management behavior and labor relations in general. In Germany, for example, listed companies with stock widely held by institutional investors, represent only a subsegment of the whole economy (Faust and Thamm 2016), whereas the vanguards of labor flexibilization like hard discount retailers have been exclusively family-owned companies with no "shareholders" at all. So even if we suppose shareholder value management as completely effective and efficient, it could by no means be a sufficient explanation for general developments or working conditions and labor relations, characterized by the second set of "stylized facts."

Favereau's solution for this problem seems to be the introduction of the aforementioned "*regime of inter-subjectivity* which financialization has contributed to establishing" (Favereau 2016, 45, emphasis in original), based on "the convention of individual evaluation by numbers" (ibid.) and resulting in a "standard management framework in which enterprises (from SMEs to the largest multinationals) have approached the age of financialisation" (Favereau 2016, 51). However, there seems to be a sort of circularity in this argument, with the "regime of inter-subjectivity" as *explanans* and as *explanandum* with respect to financialization at the same time. One might assume that methods of evaluation that were originally developed in a perspective of shareholder control became generalized as best practice of efficient management. However, in this case, the adoption by managers and owners beyond shareholder-owned companies would be based not on dependency but on (strategic) choice.

## 2.2. The (Un)Ambiguousness of Numbers

Shareholders of listed corporations are not unambiguously and unilaterally able to inforce their interest and will on managers of these firms as Favereau suggests. Strategic choice is not only a matter of managers with less demanding or passive owners; it is an essential implication of any management. There is no doubt that the rise of agency theory as a dominant conception of the enterprise and the implementation of comprehensive evaluation tools focused on financial indicators have significantly increased the influence of financial rationality in and on non-financial companies. Nevertheless, in our view Stark's concept of entrepreneurship, perceived not as a personalized but as an organizational quality remains relevant for financialized companies: as the "exploitation of ambiguity" and "the ability to keep multiple orders of worth in play and to exploit the resulting overlap" (Stark 2000, 5). The general and especially the legal acceptance of agency theory and the generalization of financialized evaluation tools have significantly strengthened the bargaining position of actors that are able to refer to them efficiently. But they have not and could not eliminate the opportunities for and the necessity of choice and bargaining.

The decisive actors and the most prominent beneficiaries of financialization in contemporary capitalism are people in strategic management positions or top positions in financial intermediation. And their common powerbase is not the unambiguousness of financialization, but the fact that financialized requirements can and must be interpreted and weighted against each other as well as against other relevant situated aspects. This does not create a unified perspective. The spaces for interpretation and the trade-offs that managers in the real economy have to deal with differ from those financial intermediaries face, even where the former have an affinity to financial markets. Moreover, the institutional investors' interests and business models are quite heterogeneous and not necessarily compatible with each other. This constellation does not constitute a consistent social logic of valorization. What it does lead to in large companies is a tendency for constant restructuring at various levels, as well an increasing opportunism in labor relations.

Accordingly a heuristically fruitful approach to financialization of the enterprise should start with the presumption that financialization does not and could not mean that the enterprise is nothing but financialized. Within such a conceptual framework the enterprise that is exclusively financialized and this in all its dimensions, as portrayed by Favereau (2016), could be conceived as an edge case within such an conceptual framework, which has undergone such a severe "deformation" that it ceases to be a real economy enterprise that still produces some use value and is part of a wider society.

We conclude that we need a concept of (control-)financialization that allows for ambiguity and multi-referentiality and avoids "conceptual stretching" and the resulting fuzziness (Engelen 2008, 113). Thereby, we try to develop a precise, that is to say a non-overlapping definition of financialization that does not per se include potential effects (weakened innovativeness, precarization, deterioration of working conditions, etc.) as “two sides of a coin.”

## 3. Control-Financialization – Conceptual Considerations

The term financialization, seen from its origins, can be conceived as a disengagement from terms like “Financial Market Capitalism” (Windolf 2005) and similar terms that indicate a cohesive capitalist formation or stage. Scholars who use such notions of a capitalist formation always have to emphasize and justify a specific aspect, feature, or logic of societal structure or development vis-à-vis other features or logics that are equally conceivable and arguable. One only needs to think of the nowadays popular “*digital* capitalism.” “Financial Market Capitalism” goes along with the notion of a dominance of financial markets and their main actors vis-à-vis other markets, subsystems, or organizations. And indeed, the version of Financial Market Capitalism, prominent in Germany (Windolf 2005) insinuates that powerful institutional investors, guided by a single and unambiguous definition of interest and accordingly a unambiguous logic of action, are authorized and capable to impose their will on to all other actors in and around the enterprise. The result is a new economic formation that is universally governed by a financial market logic.

In contrast, the concept of financialization introduced by Froud et al. (2006) expressly avoids such a straightforward theoretical deduction. They favor a more open concept of financialization. For a start they acknowledge that the management of listed corporations nowadays not only have to position themselves in competitive product markets but also have to explain and justify their strategies and results vis-à-vis capital market actors so that the latter have an impact on what the former do and say. We follow this more open concept of financialization. It has the following advantages. *First*, it does not suspend the connection between product and capital markets. Instead, the positioning of the firm on product as well as labor markets remains a main point of reference for the observations and assessments by capital market actors. And it remains a main point of reference also for the narratives by which management portrays the firm vis-à-vis the capital market. *Second*, the reference to both product and capital markets precludes the possibility to strictly deduce what maximization of shareholder value could mean as a target, not least because the market value of the firm is determined by factors that are not under control of management. *Third*, financialization should not be identified on the basis of fixed effects as, for instance, in the change of principles from formerly “retain and invest” to “downsize and distribute” as assumed by Lazonick and O’Sullivan (2000). Effects are rather “conjunctural, contradictory, and non-totalising” (Savage and Williams 2008, 8). If scholars assign particular effects such as weak growth and decreasing innovativeness (Deutschmann 2005) or precarization of work (Dörre 2009; Brinkmann and Dörre 2005) they should take into account varying degrees of financialization and other contexts varying in time and space. Effects should not be insinuated by merely refering to an alleged new stage of capitalist development.

By highlighting these advantages we have already pointed out the aspects by which our own conceptual approach (layed out in more detail in Faust and Kädtler 2017) goes beyond the Froud et al. (2006) concept. They more or less implicitly assume that financialization takes place in a particular institutional and structural setting, which is characterized by stock market listing, a shareholder friendly corporate governance, and financial investors being the dominant shareholders. We, however, decidedly define financialization as multidimensional and explicitly allow different degrees or shapes of financialization in each of the dimensions. In doing so, we resort to two more general sociological concepts: a concept of economic fields informed by a pragmatist theory of action following Jens Beckert (2010) as well as a concept of the "multi-referential enterprise" making pragmatic use of various concepts from organization theory.

In this field concept three types of social structures have an impact on economic action and hence are relevant for the explanation of social and economic outcomes: (1) Institutions that provide rules in the sense of rights and obligations (Streeck and Thelen 2005b) or "criteria of rationality" (Lepsius 1997) that are made obligatory by means of sanctions and/or the recourse to some "third party"; (2) social networks that represent the relational and structural embeddedness of actors and provide resources and define power positions;[3] (3) "cognitive frameworks" that comprise guiding ideas ("*Leitideen*," Lepsius 1997) or "conventions" (Diaz-Bone 2011; Kädtler 2011) that are used to explain and justify actions and institutions as well as normatively or cognitively stylized concepts of action and organizing in the sense of "rationalized myths" (Meyer and Rowan 1977).[4]

In any particular situation all three structures have simultaneously an impact on actions and on interaction, that is to say each structure "operates" under the stipulation and limitation of the other structures in a complementary or contradictory relationship. For instance, each situated actor interprets his or her conditions for acting in the light of available and more or less authorized cognitive frames. Actors in situ interpret and apply the obligatory institutional rules in the light of cultural background assumptions. And they assess the behavioral impact of these rules in the light of their particular position in a given actor constellation. Reversely, the conditions for action of actors

[3] For network constellations, we synonymously use the term actor constellations ("*Akteurs-konstellationen*").

[4] Regarding these distinctions and the relevant scholarly literature see Faust and Kädtler (2017).

positioned in a particular way only become visible to the actor in the light of institutional rules that authorize particular positions, grant rights, and/or impose obligations to them (see in more detail: Beckert 2010; Faust and Kädtler 2017). Therefore, none of these structures is conceived as determining action, moreover, the simultaneous impact of all structures is not likely to work in one direction in a kind of hyper determination. Rather the multiple structuring of fields implies the possibility of dynamic change because creative actors may refer to each of the structures in order to gain a better position by influencing one of the other structures. For instance, actors may use new, challenging cognitive frames to delegitimize the guiding ideas or criteria of rationality of the prevailing institutions. This may result either in an explicit rule change or in a modified interpretation and application of these rules, for example, as it may initiate a gradual, but nevertheless transformative institutional change as proposed by Streeck and Thelen (2005a).

Because the economic actor in our concept is a firm, i.e., an organization as a collective and not an individual actor, an enduring social system that develops resources and capabilities and attracts a variety of interests over time, we specify the field concept by introducing the corresponding concept of the multi-referential enterprise. It reflects in its decisions and internal structure its multiple and inconsistent embeddedness in structural, institutional, and cognitive-cultural respect. This has the following implications. The creativity of the actor refers to the notion of strategic choice (Child 1997) by which management positions the firm in a certain environment, and in doing so chooses those framework requirements the company has to deeal with. And at the same time management defines and develops its resources and capabilities and maintains its social cohesion. In a capitalist environment with competitive markets, creativity inevitably refers to innovation and the maintenance of a basic capacity to innovate is regarded as an organizational task. The development of strategies (including the choice of organizational structures) depends on the perception and interpretation of environmental demands and expectations as well as internal capabilities. Both tasks are performed as a distributed activity involving a variety of functions, hierarchical levels, professional groups, management factions and boundary-spanning units across the organization even if final decision-making needs the authority of top management.

The different functionally and/or professionally defined sub-units observe and interpret particular task environments in which the organization operates. As boundary-spanning units they are responsible for the relationship to particular stakeholders, recognize and translate their demands and expectations for internal purposes but also represent the organization and its interests vis-à-vis these stakeholders. They interpret and translate various institutional rules into organizational routines but also try to influence institutional rule making that is pertinent for the organization by lobbying. As members of specific professional communities, trained and socialized in particular professional or occupational cultures, they represent and introduce specific insights, world-views or partial rationalities into the process of strategy building but also into day-to-day organizational activities.

Based on these considerations we propose to define financialization of the enterprise with respect to all three structures as follows:

1) Financialization in the *network dimension* is characterized by changing structures of ownership and supervision that go along with an increasing influence of "new owners," i.e., organized and professionally operating financial investors, at the expense of previously prevalent categories of shareholders. The latter could be regarded either as influential, but patient (banks, insurance companies, families, other companies) or as passive, isolated, and uninfluential (small, private shareholders). Different degrees of financialization in this dimension can be identified by typical actor constellations; the vanishing point of financialization in this respect is in accordance with most literature the "vulnerable," listed corporation with stock widely scattered and held by institutional investors (Faust and Thamm 2016).
2) Financialization in *institutional respect* is characterized by the establishment of new rules for corporations and financial markets that grant rights and enhance influence of nowadays more organized minority shareholders vis-à-vis management, other groups of owners, creditors, and employees and imposes obligations on the firm.
3) In *cognitive-cultural respect* Financialization is characterized by new guiding ideas of management and corporate governance, which provide the munition for reforms on institutional level and equip actors on company level with new registers of explanation and justification. This change of ideas can be based on the rise of new theories and heuristics in the corresponding scholarship (especially financial economics), which are also adopted for the assessment and valuation of firms at the stock exchange (e.g., Capital Asset Pricing Model, Discounted Cashflow). This change of cognitive frameworks refers to the rise of new theories of legitimation such as agency theory, which justifies why the "residual income receiver" should also be granted the residual control rights and why the reward system of managers should in the first instance be aligned with shareholder interests. Moreover, scholars and consultants also develop new recipe knowledge as to how shareholder value orientation should be organized and which strategy recipes should be favored (concentration on core businesses, narratives for the equity story).[5]

[5] When defining financialization in the cognitive-cultural dimension most problems occur in distinguishing the phenomenon to related concepts or terms like economization or moneti-

The structuration of fields may procede in a way that financialization is complemented and enhanced by the concurrence of all three dimensions. But this should only be seen as a conceivable case of an ideal type realization as provided as vanishing point by stagist theories of capitalist formation. For real world analyses different degrees or shapes of financialization should be regarded as possible in each dimension for each of which we need to develop appropriate measuring concepts or typologies (Faust and Thamm 2016). This includes that in principle financialization may vary independently in all three dimensions. This comprises cases in which firms use capital market oriented valuation metrics or management concepts although they are not listed on stock markets and hence financial investors do not raise their voice here. Moreover, allowing for different degrees of financialization includes the notion that the financialization of a firm or of a larger unit of investigation (field, national economy) may vary in both directions over time. The process of financialization may cease because the new institutional rules only have a limited coverage (e.g., only apply to listed corporations) or because other guiding ideas or conventions, subdued for some time, regain influence, by which the power structure of the field changes again in favor of other stakeholders; the process of financialization may even be reversed if a former change of rules meets resistance and rules are changed again, for instance, because the advantages of patient capital have been rediscovered. In short: also definancialization should be kept conceivable. Finally, financialization is only an aspect-related (not a total) characterization of the enterprise. On a company level therefore inevitably regarding all three dimensions, other structures remain valid and influential. Enterprises operate in product, procurement, labor and capital markets and hence are exposed to the different stakeholders interacting in these markets as well as to the different rules typical for these environmental segments. This multi-referentiality is also valid for the cognitive-cultural framing. Therefore, enterprises can be financialized to varying degrees but they cannot be merely financialized (Faust and Kädtler 2017).

This multiple and potentially conflictual embeddedness of the multi-referential enterprise has its correspondence within the organization, the firm. Financialization strengthens all those functions, professions, and boundary-spanning units (especially finance, investor relations) that are exposed to and communicate with shareholders and analysts, share professional understandings with capital market actors and/or perceive their role as the advocate of a financial market rationality, and fulfil the obligations that new rules of

zation (Chiapello 2015). This is reflected in the identification of metrics used in management by objectives that are deemed typical for financialization (see Latniak 2016; Faust and Thamm 2016). We advocate a narrow version in which metrics are related to financial economics and capital markets. Ordinary metrics designed for (internal) cost control have been used for decades in industrial rationalization.

corporate governance have imposed on the corporation. To varying degrees financialization going along with a shift in the *external* coalition leads to a shift in the internal power structure and may thus change the *internal* coalition (Mintzberg 1983). However, as long as other stakeholders remain relevant for the success of the firm and its legitimation, other notions of the company and its economic and societal mission remain relevant. These find advocates within the firm (such as human resource management addressing employees and their representatives) if the stakeholders may raise their voices. Other institutional rules impose (often) conflicting rights and obligations (as e.g., codetermination) that also have to be reflected in the internal structure. The firm remains multi-referential, struggling internally for compromises between financialization and complementary or competing logics or conventions. The task to find out how these movements and resulting adjustments look like on a case-to-case basis and which effects they produce has to be given over to empirical analyses that look for typical constellations and its effects.

## 4. The Ideas of Financialization and Its Uneven and Contested Realization in Strategy Formation and Institutional Change

For Favereau agency-theory and the related "convention of the shareholder-owned enterprise" is a cornerstone of the "Great Deformation" of the enterprise, "in relation to which everyone must determine themselves" (Favereau 2016, 38). We concur with Favereau in acknowledging agency-theory as a central concept in the idea-world of financialization. We also agree that "economic theory (that of finance and of agency) opens up room for justification of the financialization movement" (Favereau 2016, 40). However, we do not agree with the notion that the new ideas turned the financialization movement "unassailable" (Favereau 2016). Instead we maintain that the new ideas remain contested and disagree with his conclusion that these ideas have been realized determinately, evenly, and uncontestedly, neither in strategy formation nor in the change of institutional rules. In the remainder of this section we try to show that our concept is better equipped to analyze the process of an uneven and contested process of financialization. We do so with reference to the German experience but believe that it carries more general arguments that are also valid for other national contexts.

Undoubtedly, agency-theory (Jensen and Meckling 1976) ranks among the key ideas of control financialization, informing the external evaluation and exertion of influence by capital market actors, corporate strategy formation as well as the political process of institutional reform. Its rise from an esoteric niche within the academic milieus of the 1970s to a central theory of legitimation for shareholder primacy first occurs in the US in the interplay with the early rise of the institutional investor there (Davis and Thompson 1994; Lordon 2000; Lazonick 2017). When in the 1990s in Germany financialization started to develop and institutional investors gained ground as the natural carriers of agency theory, it could rely on the already existing transnational channels and carriers by which the new knowledge and the urgency to follow it could be transferred from the Anglo-Saxon world. However, also in the heydays of agency-theory in US-dominated management scholarship there remained an ideational and conceptual contest between the Shareholder Value doctrine and the competing "Stakeholder Approach" (Freeman 1984, 2010; Donaldson and Preston 1995). Similarly, in German business economics despite the newly emerging priority claim of financial economics the quarrel did not end up in a surrender of the other sub-disciplines and their knowledge claims. Whereas some representatives of Human Resource Management (HRM) subordinate themselves at least rhetorically and spotlight their concepts under the new headline of "value-oriented" HRM, this by no means is valid for the bulk of HRM scholarship (Aust et al. 2015; Gerpott 2015; Lang and Rego 2015); even among the new headline of "value orientation" we find stakeholder-oriented approaches that declaredly depart from a shareholder value orientation (Arbeitsgemeinschaft Engere Mitarbeiter der Arbeitsdirektoren Fachausschuss 1/01 2004; Faust et al. 2011, 213-8; Vormbusch 2012). Also within management accounting ("Controlling"), a subject that seems most dedicated to the shareholder value doctrine and produced a bulk of textbooks for practitioners (Schierenbeck and Lister 2002), there is still intellectual competition between competing concepts in which "value-based" approaches have no priority (Scherm and Pietsch 2004). In a similar vein, in the same period in which "value-based management" was on the rise, also the "Balanced Scorecard" (Kaplan and Norton 1997) as a competing management concept witnessed considerable response. It was conceptualized by its authors as a correction to a one-sided and short-term financial orientation and correspondingly criticized by Jensen as a "managerial equivalent of stakeholder theory" und thus as aberrance from the true doctrine (Jensen 2002, 235).

This short outline of the German debate should have demonstrated that the new ideas have gained ground since the 1990s but remain contested by competing ideas, which again may gain ground themselves when the realization of the new ideas of financialization have shown their "deforming" effects. Thus we refrain from the notion that new ideas just outcompete existing ones all the more as competing ideas still have social carriers that are interested and have the power to bring them to the fore. Or in other words: there are still various orders of worth (Boltanski and Thévenot 2006) on offer to which actors can refer in order to explain and justify their decisions and course of action. In which constellations which ideas matter and are made relevant, in how far and which kind of compromise are necessary then needs to be analyzed from case to case empirically.

## 4.1 Ideational Change and Its Contested and Incomplete Institutionalization

We now turn to such an uneven and contested realization of the convention or the new ideas of financialization. Agency-theory and its popularized versions also provided the ideational horizon for the institutional reforms having been introduced stepwise since the mid-1990s. This refers to the strengthening of (minority) shareholder rights vis-à-vis insiders, disclosure and transparency requirements, the admittance of stock options for a capital market oriented remuneration of management, the enabling of share buy-back programs in the interest of current shareholders, and the implementation of takeover rules that set narrow confines for managers to oppose unfriendly takeover bids (Höpner 2003; Jackson and Sorge 2012; Faust 2013). All this means that core regulations have been implemented in order to accomplish a "market for corporate control," deemed necessary to discipline managers to act in the interest of shareholders as the "residual claimants." After a surge of reforms Germany has been acknowledged as a poster-boy of a shareholder-friendly corporate governance, especially in terms of implementation of the "One Share, One Vote" principle or takeover rules (Jackson and Sorge 2012), the latter offering US managers via "poison pills" more scope for defense. Agency-theory also provided a new or a newly accentuated justification for the refusal of codetermination among entrepreneurs and managers, not least in family owned companies.[6] The claimants of the (only) residual income (shareholders) should also have the residual control rights – this was the new mantra now also preached in leading business journals (Schmid and Seger 1998). International investors would be discouraged to invest because they would have to reckon with higher capital costs having a negative impact on the competitiveness of the German business location. In the face of the permanent and relentless criticism brought forward by the umbrella organizations of trade and industry, backed by liberal politicians and important voices from the academia one could doubt whether the core principles of codetermination would remain untouched, especially when considering that other shareholder-friendly reforms had already been introduced or were on the agenda.

However, the radical critics of codetermination from the business associations did not dominate the public debate. For the unions any confinement of codetermination was not negotiable. Although the red-green coalition government partially followed the new credo by introducing shareholder-friendly reforms, it strictly kept hold of German codetermination and other peculiarities

6 Regarding this debate see Jackson (2005) and Faust (2011).

of German corporate governance (two-tier board). The failed attempt of the conservative and liberal parties in 2005 to gain a majority in the German parliament with a neo-liberal program, finally lead to a newly adjusted public debate. The newly built grand coalition embraced the basic ideas of the academic members of the official commission on codetermination (Mitbestimmungskommission 2006; Streeck and Höpner 2006), which at best only moderate changes of codetermination considered necessary and appropriate. Therefore, codetermination persists despite of shareholder-friendly reforms as an alien institutional element of the German political economy that potentially contradicts capital market pressures (Jürgens et al. 2000; Vitols 2004). As a result the pluralist legal structure of the corporation as laid down in corporate law ("*Aktiengesetz*") remains untouched. A shareholder primacy has not been implemented and both managing and supervisory board members remain obliged to the "sustainable" prosperity of the corporation, which they should foster by balancing the interests of all relevant stakeholders. Also the provisions of the German Corporate Governance Codex (GCGK) in several respects are an expression of the new orientations towards shareholder interests. However, the core of the codex advocates for a pluralist concept of the corporation and, with respect to the duties of the managing board, favors a stakeholder model even more pronouncedly than corporate law (see Regierungskommission Deutscher Corporate Governance Kodex 2015, 5).

Overall, this episode demonstrates that the new guiding ideas of financialization have been effective in several ways but remain contested as ideas and rival orientations have not been outcompeted. The new idea of "shareholder primacy" (Stout 2012) has been translated into institutionally warranted rights for shareholders and obligations for the corporation and its managements and thus has been made behaviorally relevant (Lepsius 1997). However, this happened only partially and without completely replacing the basic concept of corporate order. Gregory Jackson (2005) characterizes this process as an inconsistent "institutional reconfiguration" of the corporation in the German political economy. Jackson and Sorge (2012) interpret the conflicting coexistence of institutional elements as "institutional layering" (according to Streeck and Thelen 2005b), which enables new practices without eliminating or disabling old ones. Regarding the interplay of potentially conflicting institutional rules some scholars put more emphasis on the "conversion" of codetermination; that is to say a shift in meaning by which codetermination becomes an element of a newly emerging "competitive coalition" (Lütz 2003; Höpner 2003). Other scholars underscored the translation or renegotiation of "Shareholder Value" under the adverse conditions of codetermination. The latter includes that capital market actors from foreign contexts may reinterpret their role in the institutionally and culturally "alien" context in which codetermination is taken for granted and has its advocates also among managers (see Goutas and Lane 2009; Jürgens et al. 2000; Vitols 2004; Faust et al. 2011). The tenor of the societal and political controversies regarding the causes and effects of the great financial crisis in the following rather stabilizes a stakeholder-concept of the corporation demanding "sustainability" and "respectability" ("*Ehrbarkeit*") of management. This is reflected in corresponding extensions of the Corporate Governance Kodex (Regierungskommission Deutscher Corporate Governance Kodex 2015, 1) and (moderate) corrections of the remuneration rules for managing board members (see Wilke et al. 2011). Efforts for even more comprehensive re-reforms of corporate governance however, which could confine hedge fund activism more effectively or would strengthen codetermination rights, did not succeed. In the face of an incomplete and conflicting institutionalization of the core ideas of financialization all conflicts regarding corporate strategies, labor policies, and labor relations are carried out in the emerging pluralist, but contradictory corporate order. All results regarding these policies are bound to the respective balance of power at industry or firm level, particularly to the specific actor constellations and shared understandings of conflict regulation.

## 4.2 Financialized Strategy Formation and Labor Relations in the German Chemical Industry

In what follows we will present some aspects of financialization in the German chemical industry and the implication for labor standards and industrial relations (For a more detailed presentation see Kädtler 2009).

The German chemical and pharmaceutical industry was dominated traditionally by three corporations: Bayer, BASF, and Hoechst. Labor relations in these companies also were at the basis of the most cooperative and at the same time a particularly efficient form of German Social Partnership. The business model of the "Big Three" since the late 19th century had been founded on an economic and technical paradigm known as *Verbundchemie* – "joined-up chemistry." The focus was not on 'core competences' defined by specific product or market segments but on optimizing and continuously developing a complex set of production and innovation capacities relating to a wide range of present and future products and markets. As a result, the "Big Three" covered more or less the whole spectrum of activities within the chemical industries, including pharmaceutical innovation, development, and production.

This technology-accentuated economic paradigm depended on specific collective skills of companies' workforce because of the complexity of the overall technological context. Therefore, it was traditionally superimposed by an unstinting policy of corporate social integration, designed to ensure that employees were tied and committed to their respective firm on a long-term basis. The central actors of workers representation were co-opted as important members of the "dominant coalition" with far-reaching influence within the corporation as well as within the chemical workers union. The adoption of shareholder-value-management and a dominant focus on financial markets' requirements as a mode of justifying corporate strategies caused radical change since the 1990s. Especially, synergies between different business areas, that used to be perceived as most important assets in the past were now declined as (forbidden) cross-subsidization, at least in two of the "Big Three." One important implication has been the abandonment of the traditional link between chemicals and pharmaceuticals as a cornerstone of respective business strategies.

*Hoechst* as the biggest of the three made several strategic moves within no more than ten years: from an industrial to a financial holding, followed by becoming part of a French-based "Life-Sciences-Company," that soon became a "focused pharmaceutical company" and finally has been caught in to the French Sanofi SA as a result of a *de facto* hostile takeover. Striving during a couple of years to combine strong commitment to shareholder value with holding on industrial synergies, *Bayer* ended up by adopting a strategy rather similar to that of Hoechst about ten years later, becoming a holding company focusing on pharmaceuticals, consumer care, and Crop Science as "Life Sciences."

In terms of wages and labor standards the result was manifold differentiation and fragmentation. While they developed rather stably for the minority of employees who were still part of the remaining core companies, there was significant deterioration for those in business areas that were demerged. Worst off were many qualified workers in former departments of maintenance, who traditionally were at the core of unionization in these companies, and who have become part of external service providers.

At *BASF* we find financialization to be similarly important. Instruments and procedures of value-based management (VBM) have been adopted, that only marginally differ from the system used by Bayer. Nevertheless the business strategy differs completely. Where Bayer (and Hoechst) abandoned industrial chemistry business and focused on Life Sciences as core competences, in accordance with the dominant opinion on financial markets, BASF retained the technology-based, multi-sector *Verbund*-strategy as core-competence and sold its pharmaceutical business. When synergies were denounced as cross-subsidizing elsewhere, at BASF managers insisted on synergetic integration as a basic principle of corporate strategy. The company continues to be an integrated chemical corporation with homogeneous wage and labor standards. And the workers' representatives continue to be highly influential.

There are (at least) two main causes for this heterogeneity. One refers to the (non-financial) resource base, product strategy, and market conditions, the other to the foundations of workers' representation in the past. *Firstly*, compared to Hoechst and Bayer, BASF's pharmaceutical business had always been significantly less important and less developed, while the company's technological and market position in industrial chemistry was extremely strong. So, focusing on developing the latter, where the company used to earn a lot of money, the realistic option was to expect that analysts and investors in the end would not ignore profitability. *Secondly*, at Hoechst and Bayer, financialization of corporate strategies resulted in a complete dismantling of the formerly extremely influential positions of workers' representatives. Exclusively focused on top-level arrangements, they had neither strategy nor resources to meet management's opting-out. When management abruptly cancelled the traditional model of corporate social partnership, they were moved from the center of decision-making to the sidelines. That does not mean that workers' representation faded completely. But it has become reduced to negotiating more or less successfully on attenuating negative social outcomes of management strategies without influence on these strategies themselves.

In contrast, the BASF works council always combined its strategy of corporate social partnership with strong unionization. Workers used to combine a strong commitment to the company with a strong commitment to union membership. So the management strategy of continuous restructuring and cost-cutting initiatives comes up with a workforce which is characterized by a specific combination of company spirit and union militancy. This is a particular explosive mix for BASF management, which depends, and must depend on its employees' long-standing collective competence, when focusing on the *Verbund* strategy. Some furious work force protests in the 1990s and early 2000s strongly reminded management that it should continue to take this dependence seriously.

It is important to see that those different strategies are not the outcome of "more" or "less" financialization. The downside of the strong continuity of BASF business strategy in terms of the real economy are the most extensive share-repurchase schemes in German industry and a policy of continually rising dividends, both supported by workers' representatives. This can be taken as a showcase of a continually renegotiated shareholder value (Vitols 2004) and at the same time a financialized version of social partnership (see also Faust 2011).

## 5. Conclusion

Notwithstanding the specifics of the German case, regarding Favereau's notion of an "unassailable" financialization the outline of the German case should have shown that the institutionalization of the ideas of financialization is incomplete and contested and other forces are still relevant. Codetermination or more generally countervailing forces should not be introduced as a kind of *deus ex machina* in order to repel a "regime that could not be more firmly anchored, simultaneously at macroeconomic, managerial and anthropological levels" (Favereau 2016, 63), a juggernaut version of financialization. We should rather acknowledge in our analyses in how far, in which ways, and in which constellations competing ideas remain relevant as a reference in both institutional reform processes and everyday decision-making at firm level, including labor relations. In doing so we should also avoid to attribute causation of all the accounts of deteriorating labor conditions and relations (as outlined by Favereau's "stylized facts") to financialization. Labor conditions and labor relations change due to other influences (usual suspects: product and labor market globalization, liberalization policies, technological change) and are empirically not confined to the sectors in which financialization proceeds most (Faust and Thamm 2016). Although we lack comprehensive empirical studies, there is considerable evidence that the erosion of union density and of workers' representation by codetermination bodies is largest in smaller and younger companies in new industries in which family owners try to remain the master in their own house ("*Herr im Hause*") (Ellguth and Trinczek 2016) whereas some of the listed corporation that are most exposed to capital markets are heavily unionized and labor policy has to be negotiated with self-confident codetermination bodies at both plant and board level. Here, capital market expectations put the established labor relations under a new pressure. However, at the same time it has to be justified vis-à-vis and negotiated with institutionally authorized labor representatives, what a shareholder value orientation could mean, how to react to those pressures and what could be implications for labor. Respective power position additionally depend on rights anchored in labor law, collective bargaining, and labor market regulations as well as on what happens to sources of primary power of the respective workforce due to labor market conditions, technological change, and pressures from value chain reorganization and globalization. Hence, what unions and works councils eventually have to concede in negotiations is not just a matter of the degree of financialization but of a variety of other structurations of the field and the respective company.

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