International Conference ‘Understanding Institutional Change in Asia: A Comparative Perspective with Europe’, 15-17 September, 2016, Tokyo, Waseda University
Round table: Converging or Emerging Diversity: Corporate Governance in Asia and Europe

Comment:

1. Over the last twenty-five years or so, we saw a lot of change and also of continuity. It is this interplay that seems to me so critical, given that we have not experienced rapid and total change of given institutional settings. The idea in the 1980s and 1990s was that the US-model of liberal market capitalism was the gold standard. An influential strand of the literature made the argument that convergence pressures was very much driven by processes of financialization which itself was the outcome of far-reaching political reforms in terms of liberalization and deregulation that started in the late 1970s, an was itself furthered by the move from fixed exchange rates to flexible exchange rate and the transition to a world of free capital mobility. In other words, we are dealing with long-term processes.

In ideal finance-led firms, the incentive is to maximize the total market return of the company for shareholders. Businesses are treated as collections of assets, which might be sold off or repackaged in pursuit of immediate capital gains. Under the threat of take-over, managers have to boost the market value of the firm by buying back its shares. Undistributed profit and new borrowing are therefore directed not to increasing the firm's productivity through investment but to increase its leverage and boost shareholder returns from the income it generates. The financialization processes thus deeply modify the firm’s relationship both with its employees and with its environment, most notably with financial markets.

2. Institutional investors an overall market-based relations have become more prominent since the 1980s and then the 1990s. Still, in continental Europe banks continued to play a big role for the provision of credit. Still, it seems fair to state that convergence happened but was always shaped by strong path dependence of established institutional settings. Path dependence very much implied that we could observe **processes of hybridization r**ather then full changeover when it comes to regimes of corporate governance. Moreover, we should be aware that financialization is not a homogenous process but differs from country to country. In other words, **financialization comes in form of diversity**. What do we actually mean when we talk about financialization? Financialization means the increasing role of financial motives, financial markets, financial actors and financial institutions in the

operation of non-financial sector businesses. Is this general definition sufficient? In any case, the national forms of financialization may help to explain the speed of convergence, respectively the trend for continuity. This is not a new argument but still, as Dosi recently stressed, still one that waits for implementation. Next is the question how financialization is changing its core features as a way to adapt to changing circumstances? What does it mean, for example, when the central bank buy on a steady way private sector bonds? The ECB has bought about 20.4 billion euros of company bonds since the program began. Is the central now responsible for the credit supply? What does it mean for traditional banking and also for private credit-based systems? What does it mean for financialization when the interest rate stays low and making profits requires financial actors to moving to more risky activities or to engage in financial innovation?

3. Financialization is a relevant independent variable t o understand change. And yet, not a sufficient explanation. It seems to me critical to go beyond financialization when it comes to institutional change. In the German case, the change of employee relations is critical, probably more critical than direct financialization. First, by creating a outsourcing network with

Eastern European labor markets. Germany made a very unique use of the creation of a new EU-wide labor market after 2004. Second, due to changes in labor and welfare laws that allowed the emergence of non-regular positions without employment security and without union coverage. Sebastien yesterday gave good evidence for the change in labor relations for Japan but the analysis kept on the level of the nation-state. I argue that it is this **transnationalization** that we may look into much more rather then sticking to territorial analysis. I tend to make the case that offshoring was more important then welfare state and labor market reforms for changes in corporate governance. Is this move towards new labor relations a step along the given path or is it actually a step away from the path and a change in corporate governance.

4. The superiority of the US version of liberal capitalism is no longer grounded in empirical outcomes. At its core, liberal capitalism came with the promise to induce disruptive innovations that then again change the way what we invest and consume and how investment and consumer goods are being produced. As a result, we see positive and strong effects in terms of labor productivity and total factor productivity. This is no longer the

case. As Robert Gordon argues, innovation effects are getting smaller. At the same time, challenges for the liberal regime are mounting: decoupling financial yield and economic return on capital, decoupling median wage growth and productivity gains, and decoupling after-tax and primary income. In other words, tensions and contradictions are becoming prominent and need organizational as well as institutional responses. If innovation shows only minor positive productivity effects, a important push factors for convergence is weakened. Rather then convergence we may see modifications and institution picking along given institutional settings.

pressures?

5. Let me come back to a area I already touched upon: The emergence of global value chains where individual companies try to establish their own corporate governance on a transnational level. As a result, we see bifurcation processes with a tier of globally networked companies, tier 1, and a larger tier of companies locked into national regimes.(tier 2). Tier 1 also uses, see the Irish Apple story, national tax and labor regimes to their own advantage by creating own transnational regimes. And yet, tier 2 may cover a larger share of national economies than tier 1. In other words, to which degree is the tier 2 economy covered in our analyses?

10. Finally, let me speculate even more. Scandals may be more critical for change then crises. In this respect, tax avoidance scandals may create more political pressure for policy initiatives than crises, and may impact forms of corporate governance. 'Dieselgate' may actually change more than 20008 events when it comes to the institutional set-up of a company like Volkswagen.. Galaxy 7 may trigger far-reaching changes. Whether Deutsche Bank will survive all the financial repercussions of its financialization strategy that came with criminal behaviour is not clear. In other words, can scandals be a relevant unlocking mechanism?