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Corporate Control and Political Salience

The hostile takeover is the signature act of no-holds-barred capitalism. While discussions of friendly mergers between companies are conducted in the language of cooperation and synergy, the discourse around unfriendly takeovers is replete with metaphors of war and violent conflict. The assets of conquered companies are treated as the spoils of war: the losing firm can be ransacked, reorganized, or liquidated, with grim consequences for its employees. Companies themselves are the site of many political compromises over fundamental issues such as wages, health care, and pensions. Hostile takeovers disrupt these compromises. After takeovers, companies become bundles of assets like any other, with some parts disposed of to pay off debts and others sloughed off in the name of strategic reorientation. The willingness of a state to allow hostile takeovers is therefore of no small political import.

In the United States and the United Kingdom, hostile takeovers are considered business as usual. These economies, where companies freely change hands, are described as having "active" markets for corporate control. In contrast, the coordinated market economies of continental Europe and Japan long opted for what are called "passive" markets for corporate control, in which hostile takeovers were extremely rare. In these countries, political and business leaders colluded to prevent large companies from being treated as simple commodities. At the beginning of the 1990s, as the implications of global financial liberalization were becoming clear, Michel Albert warned his fellow Europeans of the fundamentally different role of the company in an economy with an active market for corporate control:

> Buying a company, for the American capitalist, is no different from buying a property or a painting. It is therefore perfectly logical for the shareholder-kings to do as they please with the company they have just purchased, breaking it up and selling off the segments which do not interest them.[1]

[1] Albert (1993: 75).

Over the past two decades, the deregulation of capital markets around the world has challenged the institutional arrangements that formerly impeded hostile takeovers in Europe and Japan. Large companies have been forced to concentrate on ensuring a satisfactory rate of return for increasingly demanding shareholders. Foreign investors, particularly Anglo-American pension and hedge funds, have raised their ownership stakes in many domestic markets, demanding in return political and firm-level reforms to improve corporate performance.[2] These investors come with the promise of cheap and abundant capital, but there is a price. If investors are not satisfied with the performance of the existing management team, they may choose to sell their stakes to a bidder promising to make better use of the company's assets. Given the pressures of financial markets and the political demands of activist investors, many scholars predict the death of national models of capitalism.[3]

In France, for example, hostile takeovers have become far more common since the late 1990s. At the root of this shift were not legislative decisions, but rather institutional choices made by the managers of large companies, which stripped French firms of the defenses they had once enjoyed. Companies in France used to protect themselves from hostile takeovers through a system of high average shareholding concentration, in which a few owners controlled a large portion of the voting shares of a given company; these protections were reinforced by a network of mutual shareholding among French companies. At roughly the same time as their French counterparts, managers in Japan also abandoned the networks of stable share ownership that used to protect firms from takeover. These managers were also key players in making significant changes to Japan's legal system that have brought Japanese takeover law much closer to that of the United States.

Other countries in Europe have resisted the economic and political pressures to create active markets for corporate control. Most Dutch and German companies continue to enjoy the institutional protections that have for decades limited the frequency of hostile takeovers in these countries. German companies have perpetuated the patterns of concentrated ownership that their French counterparts have forsaken, which makes it exceedingly difficult to acquire a large German company against the will of its senior managers. Dutch companies continue to count on legal arrangements to discourage hostile takeovers, as they have throughout the postwar period.[4] Despite repeated political attacks on them between 1994 and 2006, these Dutch protections remain firmly in place as of this writing. In the Netherlands, as in Germany, the market for corporate control is largely quiescent.

Why did some markets for corporate control become more active in the face of financial globalization, while others remained passive? Existing explanations point either to partisan political entrepreneurs or to cross-class coalitions as the causal drivers of institutional change. The partisan account looks to political

[2] Tiberghien (2007), Ahmadjian (2007), Schaede (2008), Goyer (forthcoming).
[3] Hansmann and Kraakman (2001), Höpner (2003).
[4] De Jong and Röell (2005).

parties in general, and reformist politicians of the left in particular, as the likely motor of corporate governance reform.[5] The coalitional approach looks for the emergence of a transparency coalition, which brings together institutional investors with workers interested in ensuring shareholder oversight of their managers, as the most probable source of reform of systems of corporate control.[6] Although one of these theories stresses political parties and the other interest groups, they share the same underlying logic. A dominant political group seizes power through an election in which it wins the most votes; that group passes laws that secure or undermine institutions of corporate control; and these legal reforms destroy old institutions and replace them with new ones, born of legislative power. These two explanatory models, in other words, treat corporate control like any other high-profile battle in democracies, where public opinion and legislative votes are the most valuable currencies.

In this book, I argue that the outcomes observed in these four countries result not from variations in government partisanship or from different interest group coalitions, but from differences in the political preferences of managerial organizations. In all four countries, the rules favored by the managers of large firms are those that triumphed, often against substantial political opposition. The preferences of managers differed across these four countries, depending on the strength of labor organizations in their firms.[7] The globalization of international finance after 1990 offered firms in coordinated market economies the possibility of greater access to foreign capital. In return, foreign investors demanded that companies focus on their core competencies – that is, doing only what the firm does best – in order to increase shareholder value.[8] Focusing on core competencies requires that companies be able to reorganize rapidly, a process that frequently involves making workforce reductions. How managers responded to financial globalization depended on the shop floor strength of workers and their capacity to limit reorganizational initiatives. Where labor organizations were weak at the firm level, as in France and Japan, company managers pushed for radical reorganization and accepted active markets for corporate control as the price of doing business in a global economy.[9] Where works councils were entrenched enough to retain effective veto power over reorganizational plans, as in Germany and the Netherlands, managers found it too costly to abrogate their existing ties to other stakeholders.[10] They therefore

5 Cioffi and Höpner (2006), Tiberghien (2007).

6 Gourevitch and Shinn (2005).

7 This argument about the source of managerial preferences draws on the work of Michel Goyer (2002, 2006a, forthcoming).

8 Tiberghien (2007), Schaede (2008).

9 Goyer and Hancké (2005), Schaede (2008).

10 Jackson (2003), Goyer (2002, forthcoming). Strong firm-level labor is not only a constraint. Works councils can improve production by providing information from workers that management lacks. The cost, from a managerial and shareholder perspective, is the slower process of adjustment (Freeman and Lazear 1995). The devolution of autonomy to workers is a central part of Dutch and German production strategies, one that managers often consider an advantage in international competition (Goyer 2006a).

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retained existing takeover protections in order to blunt the influence of institutional investors over managerial decision making.

Even though managerial preferences varied across these countries, managerial political power did not. In each case, managers got the regime of corporate control they wanted. What is interesting about the variation in regimes of corporate control is that they all shared this common cause. Why were managers always able to get what they wanted in the politics of corporate control, even when they wanted different things?

This book offers a framework for understanding the sources of managerial power in the politics of corporate control. This framework emphasizes the advantages of managerial organizations under conditions of *low political salience*. The political salience of an issue refers to its importance to the average voter, relative to other political issues.[11] Baldly stated, organized managers typically prevail in political conflicts over corporate control because those issues are of little immediate interest to most voters. Managerial organizations generally win under these conditions because they have access to superior weapons for battles that take place away from the public spotlight. Low salience political issues are decided through what I call "quiet politics." The managerial weapons of choice in quiet politics are a strong lobbying capacity and the deference of legislators and reporters toward managerial expertise. The political competitors of managers, be they liberalizing politicians or crusading institutional investors, lack access to equivalent political armaments, so long as voters evince little sustained interest in and knowledge about an issue.

Just as national armies use different strategies to fight other states than to fight guerrillas, so do managerial organizations rely on different resources under conditions of high and low political salience. Battles over issues of high salience force managers to seek interest group allies and persuade public opinion, which is why business organizations lose many high-profile political fights.[12] In low salience conflicts, on the contrary, the biggest army does not always win. Superior knowledge of the terrain and access to key decisionmakers are the most valuable resources in quiet politics, compensating for the small number of votes directly represented by senior managers in any democracy.

The importance of political salience in determining the political resources of interest groups has broad implications for our understanding of democratic politics. Much current work in political science looks to electoral politics and the competitive dynamics of parties and elections to explain major variations in policy outcomes. Such work emphasizes how political parties position themselves on a given issue with respect to the material interests of the voters for whom they are competing – notably, the "median voter," who sits at the very center of the preference distribution of the electorate.[13] Yet not all political

[11] Kollman (1998: 9).
[12] Smith (2000).
[13] Exceptionally, some scholars of public opinion – especially of American public opinion – do include salience in their models of public influence on policy (Kollman 1998, Jacobs and Page

competition takes place through high stakes elections, though political scientists often assume otherwise.

Many issues in capitalist democracies are not subject to a popular vote. Politics always involves conflicts among different groups, but the most effective weapons in those conflicts vary – depending, critically, on whether the issues at stake are of high or low political salience. Models of politics that assume a median-voter logic misrepresent the dynamics of some conflicts by failing to incorporate variations in issue salience. This is akin to assuming that the biggest armies always win guerrilla wars. The issue of corporate control, as an area of characteristically low political salience, constitutes a laboratory for the study of how political battles differ under these conditions.

Political Salience and Interest Group Politics

For political parties operating in a democracy, winning is about getting the most votes. But for interest groups, winning elections is not the only way to achieve political goals. Groups can also exercise other power resources: trying to influence legislators or parties on how to vote, or indeed, whether to put an issue to a vote at all.[14] Political parties take positions on high-profile issues, such as taxes and pensions, because voters care about their position on these issues and will hold them to account for it in future elections. These are the types of issues political scientists describe as having high political salience, in that most voters care and are at least minimally informed about them. But issues such as corporate control are, by virtue of their low visibility and technical opacity, much less likely to come back and haunt governments in an election. "Read my lips: No new poison pills," is an unlikely campaign slogan in any country. When an issue is of little interest to most voters, the press has little incentive to cover it and ambitious politicians gain little by acquiring expertise in it.[15] This creates an ideal political terrain for interest groups with a concentrated interest in the outcomes of the political process.[16]

It is well-known among students of regulation that issue areas with concentrated costs and dispersed benefits are prone to capture by an interest group that has much at stake.[17] Only those with very intense interests in the rules of corporate control pay attention to the complex area of corporate governance

2005, Soroka and Wlezien 2010). Perhaps for reasons of subdisciplinary specialization, these important insights have had little impact on the study of comparative politics.

14 The "power resources" approach to politics, associated with the work of Walter Korpi (1974, 1985) and others, focused on how class solidarity among workers could lead to collective action through political parties of the left, which would then enact welfare state policies. That work concentrated attention on the power resources that are useful in the high salience arena of formal politics – votes. The power resources of managerial organizations emphasized in this book are different from those stressed in Korpi's work.

15 Wilson (1973), Gormley (1986).

16 Olson (1965).

17 Wilson (1973).

regulation all the time. Managers care, because rules governing corporate control directly determine their autonomy. How easily a company can be taken over is a good indicator of how easy it is to replace that company's senior managers. Large shareholders also care, as they have a strong incentive to ensure that managers do not deviate too far from their preferences. Individual minority shareholders have a stake in these questions, but their holdings are often not large enough to compel them to inform themselves about corporate regulations, even though their collective benefit from a shift to active markets for corporate control might be substantial. Institutional minority shareholders, such as mutual funds, *do* care about the rules of corporate control, and they often oppose the political positions taken by managers. By contrast, workers with pension income invested in companies do not have this sort of interest. They are likely to be far more concerned about immediate issues of job protection and wages than the rules that govern companies in which their pension funds own shares. We should therefore expect that workers and their unions will be irrelevant voices in the politics of corporate control, both uninterested and unlikely to be heeded by politicians when they occasionally do express an interest in the rules governing hostile takeovers. This intensity of preferences leads three groups – institutional shareholders, managers, and large shareholders – to have a much more concentrated interest in the outcomes of policy reform than the other actors engaged in the corporate governance arena. Managers and large shareholders have closely aligned interests, and as we will see, their position as business insiders gives them political resources that are usually unavailable to institutional minority shareholders, which are typically seen as outsiders.

Managers have concentrated interests in corporate control, but those with concentrated interests do not always win the day in regulatory politics.[18] Business frequently loses political battles when the general public pays attention to them, because when the public pays attention to issues, political parties start paying attention to the opinion of the median voter and stop paying attention to powerful interest groups.[19] When interest groups think public opinion is on their side, they will frequently launch mobilization campaigns to draw public attention to their issue.[20]

How do previously ignored issues become politically salient? Two of the most common causes are a crisis or the mobilization efforts of political entrepreneurs, such as Ralph Nader.[21] Either force can make large numbers of voters aware of the implications of policies, even policies that have only a negligible benefit for them. James Q. Wilson argued that political entrepreneurs "can mobilize public sentiment (by revealing a scandal or capitalizing on a crisis), put the opponents of the plan publicly on the defensive (by accusing them

[18] Vogel (1987), Smith (2000).
[19] Schattschneider (1960), Baron (1994).
[20] Kollman (1998).
[21] Wilson (1980).

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of deforming babies or killing motorists), and associate the legislation with widely shared values (clean air, pure water, health, and safety)."[22] Sometimes sudden events concentrate public opinion on a previously ignored topic and render it politically salient.[23] In the area of corporate governance, the Enron scandal in the United States created a broad upsurge of interest in the issue of corporate pay. That interest, to a considerable degree, arose because the existence of a scandal led the media to focus the spotlight of public attention on the issue.

The news media, indeed, occupies a central place in modern democracies. It provides politicians with an indicator of what information citizens are getting and what stories reporters think are newsworthy.[24] Politicians can pay attention to opinion polls to find out public *preferences* on political issues, but they have greater difficulty assessing the political *salience* of an issue: how much the average voter cares about this issue, relative to other issues.[25] Media coverage is one way for politicians to infer salience. Alexander Dyck and his colleagues provide a telling example of the impact of changing press coverage on the political influence of business in their study of votes in the U.S. Senate on the Seventeenth Amendment to the U.S. Constitution. The Seventeenth Amendment called for direct election of senators, rather than their appointment by state governments, and it was seen at the time as a way to limit the influence of big business on the Senate. The amendment failed in the Senate in 1902 but passed in 1911. Dyck et al. analyze the two roll call votes on it, looking in particular at how the votes of individual senators changed after the publication of a series of sensationalist articles in the muckraking magazine *Cosmopolitan* in 1906, entitled "The Treason of the Senate." As voters became informed about the issue of corruption and its connection to the direct election of senators – and as politicians became aware of the importance of the issue to the voting public – the ability of big business to get the vote it wanted from individual senators decreased.[26] When voters pay attention to an issue, politicians will start paying attention to public opinion. Media coverage is a key mechanism for bringing issues to public attention, and the media will publish more stories about issues that voters, as news consumers, will purchase.

Yet media outlets are not concerned primarily with making democracy work better. Their more immediate goals are to break big stories and to return a profit.[27] And the politics of corporate control is not an easy subject for reporters to sell – in part because its relevance to most citizens is uncertain, but

[22] Wilson (1980: 370).
[23] Contemporary theorists of the American policy-making process call this the phenomenon of issue intrusion (Jones and Baumgartner 2005).
[24] Patterson (1993), Tifft and Jones (1999).
[25] Kollman (1998).
[26] Controlling for partisan affiliation and regional political factors, Dyck et al. (2008) found a robust and significant correlation between the sales of *Cosmopolitan* by state and a switching of individual votes on the proposed amendment from "no" to "yes" between 1902 and 1911.
[27] Hamilton (2004).

also because the issues involved are complex. Corporate governance disclosure requirements, for example, are probably not of any lower political salience than are automobile inspection regulations. But the issues involved in car inspections are straightforward and easily grasped, even for those who are not mechanics. By contrast, disclosure requirements and hostile takeover defenses are complex matters, not easily translated into clear and concise prose that will hold the attention of a reader. It is easier to explain to voters, and voters can be made to care about these issues more easily, if the political stakes can be conveyed transparently. The combination of low salience and high complexity means that both journalists and political entrepreneurs have difficulty convincing the general public to pay attention to an issue.[28] This is an ideal combination of circumstances for managerial groups, which both understand the issues of corporate control and care about them a great deal, to wield disproportionate political influence.

The problem, it must be stressed, is not simply that the complexity of issues of corporate control makes it difficult for average voters to get a handle on them. When voters are faced with complex matters, they often use short cuts or informational cues to figure out their position.[29] In a California referendum on insurance reform, for example, voters who had little familiarity with the issue, but who knew the position of the insurance industry on it, voted the same way as voters with high knowledge of the issue.[30] In the case of corporate control, however, the complexity of the issues dissuades both the media and politicians from investing their limited capital in convincing voters to care.

Given low public salience and high policy complexity, senior managers and the political organizations that represent them have a strong incentive and the material and informational wherewithal to intervene in the politics of corporate control. To use a forensic metaphor, we have now established the motive for managerial intervention. We have also explained why the two forces that would normally police the managerial pursuit of self-interest – politicians and the media – have no incentive to oppose managers under conditions of low political salience. What we have yet to discuss are the particular weapons that managerial organizations use to achieve their political ends under quiet politics. The organizational advantages of managers – their weapons – flow from the low salience and the technical opacity of the issue of corporate control.

The Managerial Arsenal: Lobbying, Working Groups, and Press Framing

Low salience creates few incentives for political parties to mobilize in the area of corporate control. Even when there are political fights, managers can deploy three strong resources that make them the favorite in most contests over

[28] Gormley (1986).

[29] Lupia (1992, 1994), Sniderman et al. (1991). I am grateful to Peter Gourevitch for reminding me of the relevance of informational cues in this context.

[30] Lupia (1994).

takeover rules: lobbying capacity, the use of private interest committees, and influencing the tenor of press coverage. All three weapons acquire their force from the deference accorded them by politicians and the media because of their expertise in running the companies that serve as the productive engine of the economy.

The first advantage is in lobbying the government and members of the legislature. The strength of corporate lobbyists in the United States is a staple of American political discourse, but empirical research shows that the money of business lobbyists does not always translate to policy success, even in the United States.[31] The importance popular discourse places on money and politics actually distorts the understanding of the power of lobbying in most other advanced industrial countries. Companies have money, and money of course helps change minds. Yet managerial lobbying often derives most of its strength from the *expertise* of managers and their lawyers. Company managers know more about the effect of legal changes on their companies than do politicians, and politicians know this.[32] The high complexity of this field makes it difficult for politicians to challenge the expertise of business leaders, and the low salience of corporate governance lowers their incentive to invest in redressing their imbalance of knowledge.

A second advantage of managers is the fact that many governments grant significant agenda-setting capacity to informal working groups, in which managers have a preeminent voice. As in the case of direct lobbying, the power of managers in this context is the power to set the terms of the debate in an environment that is established with an explicit eye to protecting their interests. For example, the British Cadbury Committee was established by the Conservative government in 1990, with a mandate to elucidate best practices in corporate governance. By 2001, such codes had been drawn up in almost every member country of the European Union.[33] Following the structure of the Cadbury Committee, such informal codes were developed in private, "expert committees," where managerial interests were heavily represented. Obviously, such working groups are more likely to produce recommendations close to the ideal point of organized managers than is a legislative committee. But there is also a temporal dimension to the use of informal groups in public governance that should also be recognized. I have already observed that unexpected events can temporarily raise the salience of issues, thus creating a policy window for would-be entrepreneurs and a more level playing field for opponents of managerial incumbents. The institution of the private interest committee is a way for managerial interests to appear to relent to calls for greater regulation without transferring such regulation to an unpredictable forum like a legislature. Instead, a private interest body can move at its own speed, delivering its findings at a moment when the temporary rise in public salience has dissipated.

[31] Baumgartner et al. (2009).
[32] Bernhagen and Bräuninger (2005).
[33] Eberle and Lauter (2008).

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Thus, the private interest committee is an institution that can support incumbent interest at any given time, but also one that allows managers to assert some control over the timing of new regulatory initiatives.

Managerial expertise can also allow business to influence the tone of media coverage. The voting public only pays attention to the issue of corporate control on rare occasions, as when a big takeover story suddenly makes headlines. This happened across Europe, for example, when the world's largest steel company, Mittal Steel, made a hostile bid for the European steel company Arcelor in 2006. During such moments, the public pays attention to the issue of corporate control, but the subject's underlying complexity remains. In such a situation – which is one of temporarily high salience – managers and managerial organizations can exploit the same informational asymmetries that allow them to be effective lobbyists in trying to frame press coverage in terms favorable to them. A situation of temporarily high salience differs in an important way from one of durably high salience. Durably high salience creates incentives for reporters to develop independent sources of expertise to understand issues they have to cover frequently, thus reducing the information asymmetry they face in a situation of temporarily high salience. The cause of high salience is also relevant to the influence managers can have on press framing. If a scandal such as Enron causes reporters to impugn the managerial reputation for competence, then managers will have a harder time dominating the framing of press coverage of the issue, because the very reason it came to public attention is due to a failure of management. Managerial organizations are especially likely to succeed in influencing the framing of press coverage of an issue when its political salience is only fleeting and when the cause of the temporary rise in public interest does not undermine their reputation for economic expertise.

Framing refers to the "subtle alterations in the statement or presentation of judgment and choice problems."[34] In such discussions, managerial organizations have a strong incentive to link their own interests with the broader interests of the national economy. For example, where managers are interested in blocking hostile takeovers, they will employ metaphors that highlight the "unfair" vulnerability of their firms to foreign competition and the consequent threats to national economic independence. Where they favor takeovers, they will speak of the benefits of market competition for the national economy. Such strategies are an occupational hazard for reporters, who always have to deal with the possibility that news sources are attempting to elicit sympathetic coverage, or that the desire to tell an interesting story leads journalists themselves to adopt a particular narrative frame.[35] Journalists are aware that

[34] Iyengar (1991: 11).

[35] See, for example, the study by the Project for Excellence in Journalism entitled "Framing the News" (PEJ 1998), which documented the variety of frames employed by American journalists in their coverage of news events. One finding of the study was that only sixteen percent of front page articles were written under a "straight news frame," i.e., without an identifiable interpretive lens.

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business leaders have an interest in projecting a vision that favors them, and some scholars of press and public opinion are skeptical of the view that the media is a passive "conveyor belt" for elite opinion.[36] Yet journalists are constrained by their need to convey complex issues so that readers can understand them. This is an advantage for managers, and we expect them to try to deploy it when possible. As in political lobbying, being able to set the terms of press debate is no silver bullet to ensure managerial victory. But it is another weapon in a powerful arsenal.[37]

Salience, Managerial Power, and Informal Institutions

This arsenal includes formidable weapons that help managers influence formal political processes. Yet there is also an additional source of advantage for managerial groups in low salience political contests. Some battles in the area of corporate control are fought not over the wording of laws, but over patterns of behavior maintained by private actors. These I designate as informal institutions: regularized rules or practices that are not established by lawmakers or regulators.[38] Often these informal practices directly involve large companies, as in the case of cross-shareholding. Cross-shareholding refers to the practice by which companies hold each other's shares for some jointly agreed purpose, such as strategic partnership or protection against takeovers by third parties. Cross-shareholding is one of many informal institutions that can protect companies from a hostile takeover. Historically, these institutions may have been consciously developed with the consent of political parties, as was the case for Japanese and French cross-shareholding.[39] They are not, however, legal institutions, which governments can construct or abolish as they see fit.[40] Instead, these institutions depend on private decision making. I call those who decide the fate of informal institutions institutional incumbents: the current players in a given institutional regime. Where companies are the principals involved in these institutions, as is the case in cross-shareholding, the institutional incumbents are the managers of these large companies. If informal institutions play an important role in regulating the functioning of markets of corporate control, managerial power is strengthened further, because in such cases other managers are the most important actors for managers to influence in order to achieve their political objectives.

The fact that the area of corporate control often involves informal governance is not incidental to the properties that also make it typically a low salience area. Instead, low voter interest in the area means that politicians have little to

[36] Baum and Potter (2008).
[37] Guber and Bosso (2007).
[38] Cf. Helmke and Levitsky (2004).
[39] Schmidt (1996), Miyajima and Kuroki (2007).
[40] To be sure, government can pass laws that affect the costs or benefits associated with such institutions.

gain by intervening with public policy. So long as salience is low, institutional incumbents have little reason to fear that governments will step in and reshape the informal institutional order. The same deference that lawmakers extend to businesspeople in lobbying and law writing also works in favor of keeping informal institutions informal. As far as the economy is concerned, "if it ain't broke, don't fix it," is the likely mantra of many an ambitious politician.

To understand the politics of corporate control, therefore, we often need to be able to incorporate how informal institutions change. These are institutions that previous governments have allowed to function without direct government oversight. During episodes of institutional contestation, managerial organizations do not need to convince lawmakers to write laws that favor them; they just need to keep lawmakers from intervening in institutions that are privately maintained. Thus, the status quo favors managerial incumbents in the case of informal institutions. Moreover, unlike legislatures, informal institutions offer no venue in which opposition to institutional incumbents can be expressed. The decision making over informal institutions happens largely beyond the scope of direct public scrutiny.

If this reasoning is correct, it challenges the way many political scientists currently study institutional change, which is to ignore the informal institutions in the economy by assuming they are derivative of formal laws. Some scholars pursue this exclusive focus on formal institutions "because, to the extent that modern economies are *political* economies – that is, governed by politics – they are mainly controlled by norms and sanctions that are *formalized*."[41] Many social scientists who write about the politics of corporate control follow Wolfgang Streeck and Kathleen Thelen in writing only about the formal regulation of corporate governance, conflating regulatory and behavioral practice.[42] By adopting such a formalist definition, these scholars load the theoretical dice on behalf of the assumption that the cause of the difference in political outcomes lies in formal institutions. It is surely true that the politics of institutional change has distributional consequences, and that competing coalitions will advocate an institutional solution closer to their preferred outcome.[43] It does not follow, however, that coalitional bargains are necessarily pushed through legislatures or regulatory agencies.

Much of the action in quiet politics happens outside the legislative or regulatory arenas. Reforms of economic incentives to improve efficient market functioning often fail, as they are unable to change the incentive structure of preexisting informal rules, such as those of clientelism.[44] Many economists and most sociologists, in fact, focus on the role of informal institutions in stabilizing economic outcomes, whether as norms of reciprocity that lower transaction costs or as logics of appropriateness that constrain what choices

[41] Streeck and Thelen (2005: 10), emphasis in original.
[42] Gourevitch and Shinn (2005), Pagano and Volpin (2005), Höpner (2003).
[43] Amable (2003).
[44] North (2005).

actors reflexively make in structured interactions. If these institutions matter most for the functioning of political economies, then not only are Streeck and Thelen wrong to conflate politics with formal institutions, but empirical inquiry inspired by their approach will fail even to examine the institutions that matter most for actual changes in political economies.

Partisan and Coalitional Theories of Corporate Control

Focusing on the political advantages low salience creates for managers marks a significant departure from the way in which social scientists have previously studied the politics of corporate control.[45] Past scholarship has attempted to explain both the origins of ownership patterns and contemporary variations in systems of corporate control. Throughout this book I will compare the predictions derived from this existing work with those derived from the quiet politics framework laid out in this chapter. This section details the important contributions of this prior research, which can be summarized under the rubric of explanations based either on the action of political parties (partisan theory) or of interest group coalitions (coalitional theory).

Most scholarship on comparative corporate governance starts from the observation of variation between countries with concentrated and dispersed share ownership. In the United States, for example, the largest shareholder in a corporation usually holds a very small proportion of that company's overall shares. The ownership of the average company's shares is dispersed over a large number of shareholders. In Germany, by contrast, the largest shareholder in a company typically owns a significant proportion of that company's outstanding shares, meaning that share ownership is concentrated in few hands. Concentrated ownership is sometimes known as "blockholding," because the controlling owners possess large "blocks" of shares in a company. By dint of their ability to influence managerial decisions, blockholders are able to exploit minority shareholders. In countries with dispersed ownership, managers may be able to elude the monitoring of owners altogether, a point made by Adolph Berle and Gardiner Means in their foundational work on the subject.[46] It is this persistent divergence among countries in their patterns of ownership and control that political theories of corporate control generally try to explain.

[45] One important exception is the work of Lucian Bebchuk and Charles Fried, who have developed an approach known as the managerial power perspective, which they use with great success to explain the rise of executive compensation in the United States (Bebchuk and Fried 2004). Bebchuk and Fried emphasize the power of managers vis-à-vis shareholders and board of directors, rather than in the broader political sense in which I use it in this book. They also underscore the importance of arrangements for "camouflage" that keep the true extent of executive remuneration from being apparent to outsiders, which is an important element in whether or not executive pay triggers public outrage, thereby becoming politically salient. We return to the particular issue of executive pay in Chapter 6.

[46] Berle and Means (1932).

The difference between countries with and without blockholding is largely a product of politics. On this point, political scientists, legal scholars, and economists can agree. There are directly political causes of this divergence, such as the influence of the legislation that favors or impedes concentrated ownership. In addition, there are also other institutional relationships in the economy, such as those governing industrial relations, which indirectly facilitate or impede different patterns of ownership. These institutional relationships, too, have their origins in political deals. But the exact political mechanisms of institutional origins and persistence in patterns of ownership are a matter of dispute. Simplifying somewhat, we can distinguish two broad political approaches to explanation in previous work on corporate control. The first approach – partisan theory – emphasizes variation in the partisanship of governments as the ultimate cause of variation among countries.[47] The second view – coalitional theory – focuses not on parties and elections, but instead on interest groups and the coalitions they build to support their preferred corporate governance regime.[48] Below, I briefly consider the current state of the art in this field as represented, respectively by the contributions of legal scholar Mark Roe and political scientists Peter Gourevitch and James Shinn.[49]

Roe's important contribution was to reveal a fundamental flaw in a popular claim in the law and economics literature, which explains variation among countries through the origins of their legal systems. Civil law countries, such as those in continental Europe, generally have higher shareholder concentration than countries with common law, such as the United States and the United Kingdom. Civil law countries also tend to have a lower degree of "minority shareholder protection" (MSP) than do common law countries. MSP refers to the extent that the legal infrastructure enables small shareholders to hold managers and large shareholders accountable. Some scholars in the law and economics tradition have argued that the difference in the origins of legal systems accounts both for differences in equity market development and in the extent of MSP.[50] This view is a particularly stylized form of institutionalism, in which past legal histories entirely dominate contemporary politics and lock-in the expropriation of minority shareholders. The historical problem with this claim, as Roe and others have noted, is that the development of equity markets and of shareholder protections has varied over time within countries.[51] A constant – the origin of national legal systems – cannot possibly explain a variable – equity market development and MSP.

To explain this temporal variation, Roe identified instead a political cause: the rise of the "stakeholder society" and the political power of the left in the

[47] Roe (2003, 2006), Cioffi and Höpner (2006), Cioffi (forthcoming), Perotti and von Thadden (2006).

[48] Gourevitch and Shinn (2005), Rajan and Zingales (2003), Pagano and Volpin (2005).

[49] Roe (2003), Gourevitch and Shinn (2005).

[50] LaPorta et al. (1998, 1999).

[51] Rajan and Zingales (2003), Roe (2006), Herrigel (2008).

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countries of continental Europe and Japan after World War II. "Stakeholders" are all those actors that have a stake in the fate of a company, such as its employees, owners, customers, and local communities. Stakeholders are generally juxtaposed with "shareholders," which refers more narrowly only to those who own shares in a given company. Roe's central claim was that those countries that gave a prominent role to stakeholder views in politics adopted public policies that made it difficult for managers to respond to concerns about shareholder value.[52] Social Democrats chose a host of institutions, such as codetermination and labor market regulation, all of which created agency costs for shareholders. According to Roe, minority shareholders could not effectively monitor managers in these systems. Employment concerns would dominate efficiency concerns in the stakeholder society, and companies could not simply lay off workers in order to restructure in response to changes in market demand. So blockholding emerged as the only viable response to the agency problem facing shareholders in the stakeholder society.[53] Blockholders, because of their concentrated holdings, would have both the interest and the capacity to supervise managers closely, which dispersed shareholders would not.

Roe's work was pioneering in highlighting the connection between stakeholders and politics. Yet his use of social democracy as a conceptual umbrella for the stakeholder society is problematic, as political scientists have been prone to point out. Partisan theorists John Cioffi and Martin Höpner share Roe's fundamental emphasis on political parties as the driving force behind reforms of systems of corporate control. Yet they show in their work that, in places like Germany and Italy, the stakeholder society was also an initiative of Christian Democrats – that is, parties of the center-right.[54] In other words, the institutions supporting passive markets for corporate control were constructed not only by Social Democrats, as in Roe's theory, but also by conservative parties.

Among partisan theorists, there is therefore disagreement over whether we should expect political challenges to passive markets for corporate control to come from parties of the *right* or from parties of the *left*. For Roe, this challenge should obviously come from the opponents of social democracy, that is, parties of the right. For Cioffi and Höpner, by contrast, parties of the left are held to be some of the fiercest *opponents* of large blockholding. In their argument, recent economic changes have created incentives for a growing number of Social Democratic voters to prefer increased transparency and more active markets for corporate control. Thus, during the 1990s parties of the left in several countries passed reform legislation that challenged the institutions that supported passive markets for corporate control. Cioffi and Höpner, like Roe, have underlined important reasons why political parties might be interested in systems of corporate control. In later chapters I assess the empirical validity of

52 Roe (2003: 24).
53 Roe (2003).
54 Cioffi and Höpner (2006), Höpner (2007).

these theoretical expectations by examining how parties of both left and right act during episodes of actual or potential reform.

For coalitional theorists, contrariwise, political parties are not the most likely agents of reform. Instead, scholars such as Gourevitch and Shinn argue that the political roots of corporate control are to be found in interest group coalitions, especially cross-class coalitions. The most likely source of passive markets for corporate control, by this logic, is neither Social Democrats nor Christian Democrats, as the partisan representatives of their respective social classes. It is instead a cross-class coalition, joining managers and workers, each of whom faces the potential of job loss if hostile takeovers become more prevalent. The big losers facing this cross-class coalition are owners – especially, minority shareholders – who do not get maximal shareholder value in order to allow these corporate insiders to expropriate part of the firm's profits. Just as political parties are not the agents of institutional origin in the coalitional perspective, neither are they agents of institutional change. The major threats to the corporatist compromise come from a defection of one of the groups involved in the compromise. Workers might decide that they prefer to have greater oversight of managers, especially as their pension income is increasingly invested in equity markets.[55] They could then join with minority shareholders in a "transparency coalition," which seeks greater accountability for any managerial choices. Alternatively, managers can defect from the corporatist compromise to join investors in an "investor coalition." The incentive for managers to do so is the possibility to increase their share of firm profits, at the expense of labor, even in the presence of strong minority shareholder protection. The coalitional explanation for blockholding, as one that results from a corporatist compromise, acknowledges that compromises are fragile things that can be easily broken.

For this reason, coalitional theorists also focus on the importance of electoral institutions through which social preferences are aggregated. In particular, proportional representation (PR) electoral systems facilitate the survival of the corporatist coalition between workers and managers.[56] PR electoral institutions work by slowing down the possibility of political change in the absence of broad political support for an initiative. PR thus makes possible a credible commitment among different partners to the coalition by limiting the likelihood of defection by one group.[57] The creation of other veto points in the political system, such as the requirement of corporatist consultation, further reinforces the credibility of the commitment to a corporatist coalition. Thus, the protection of passive markets for corporate control runs in part through the existence of political institutions that slow any efforts to defect from it by skittish coalitional partners.

[55] Gourevitch and Shinn (2005).
[56] Cf. Pagano and Volpin (2005).
[57] Gourevitch and Shinn (2005: 76–77), Hall and Soskice (2001), Wood (2001).

The great virtue of coalitional theory is that it breaks with the assumption that political parties are the major actors in the politics of corporate control. It focuses instead on the interests of specific social groups, which respond not to general political salience but to their own political preferences. Workers and managers may indeed have common incentives to promote passive markets for corporate control, even if their respective political parties do not share those ideological preferences. Coalitional theory, by recognizing the variation in the intensity and direction of preferences across social classes, provides a more realistic window into the formation of political interests. However, as in the partisan account, coalitional work assumes away the power resources of different interest groups, reasoning instead from the logic of preference aggregation embodied in the electoral system. In this model, interest groups only achieve their ends by engineering a political majority, given the electoral system of the country in which they operate.

Partisan and coalitional theories share two features. First, they emphasize winning national elections and the ability to make laws that go along with winning these elections. Their internal political logic hinges on the idea that the most important resource in a democracy is always the number of seats in the legislature. A second shared feature of the partisan and coalitional approaches is their focus on formal rules. Both models of politics suggest that controlling the character of public policy determines whether a country ends up with concentrated or diffuse shareholding. These models assume that changing public policy – that is, laws and regulations – is necessary and sufficient to change institutions of ownership. Both partisan and coalitional approaches simply assume that politics matters *because* of the public policy it produces, which then creates the incentives that lead to corporate governance outcomes.[58]

Neither approach admits a place for nonlegal rules of the game. Each theory acknowledges that such informal rules play a role in stabilizing systems of corporate governance. Yet their models of change, which are exclusively centered on public policy making, have little to say about how the dynamics of change may differ across formal and informal institutional arenas. Seizing a majority in a national legislature may allow opponents of an existing institutional arrangement to pass laws hostile to that arrangement. But institutional change is difficult to achieve via legislative fiat when many of the relevant institutional rules are informal.[59] It is not clear how a transparency coalition or a party of the left that opposes informal arrangements of stable shareholding can translate its support in the legislature into real institutional change, particularly when institutional incumbents favor the existing set of rules.[60]

Coalitional and partisan theories of corporate governance both offer convincing political accounts of the origins of regimes of corporate control. As befits their roots in legal and political science scholarship, though, they stress

[58] E.g., Gourevitch and Shinn (2005: 83).
[59] Aoki (2001).
[60] Culpepper (2007).

a world in which conflict happens in legislatures, and where votes are the most valuable currency. Enough of those votes can make laws, and it is laws and political institutions that are the major intervening variable between political forces and corporate governance outcomes. When corporate governance politics is highly politically salient, these theories are likely to be a helpful representation of reality. Under conditions of low political salience, though, neither votes nor formal rules are likely to be the most crucial variables in the political construction and maintenance of regimes of corporate control. To understand the dynamics of change in systems of corporate control, we need a theory that incorporates variations in salience and the role of power resources that are not ultimately tied to votes in a legislature.

Strategy of Research

The research for this book began with a question: faced with the common shock of financial globalization, why do some systems of corporate control change while others remain stable? As the outcomes in the different systems were not clear when I began this project, it seemed prudent to take as one starting hypothesis that different institutions for securing passive markets for corporate control might have different chances of surviving. Different countries use a variety of means to achieve passive markets for corporate control.[61] The largest coordinated market economies in Europe, France, and Germany, historically depended on high ownership concentration to provide companies with patient ownership. Some other countries have managed to secure inactive markets for corporate control even without high ownership concentration – Japan by using cross-shareholding networks, the Netherlands by using trust foundations anchored in law. Achieving variation on this potentially relevant variable was the origin of the selection of the four cases studied.[62]

Over the course of this research, it became clear to me that what was most remarkable about these cases was not the variation in outcomes, in which national markets of corporate control moved in starkly different directions in France and Japan than in the Netherlands and Germany. Instead, what was striking was the fact that, in all cases, the outcomes reflected the preferences of managerial organizations. This observation was puzzling in light of the theoretical expectations of partisan and coalitional approaches to the politics of corporate governance. Thus, the book became an inquiry into the mechanisms that drive political change over time within individual countries. In the succeeding chapters I confront the causal mechanisms associated with quiet politics against those of coalitional and partisan theories, which also try to explain contemporary changes in regimes of corporate control.[63]

[61] Franks and Mayer (1995), Gourevitch and Shinn (2005).

[62] In fact, these features of systems of corporate control proved not to be relevant to their durability, as the outcome in France and Japan were similar to each other, and different from the outcomes observed in Germany and the Netherlands.

[63] Cioffi and Höpner (2006), Gourevitch and Shinn (2005).

The methodological approach I use is primarily one of qualitative comparison. The partisan and coalitional accounts of concentrated shareholding are complex causal arguments that involve the interaction of political actors, political institutions, and the temporal discontinuity imposed by wartime destruction. The country-level data used to test these complex arguments seldom allow us to disentangle the effects of political and institutional mechanisms, which are heavily correlated. For example, it is consistent with the arguments in Gourevitch and Shinn that proportional representation electoral systems will make it harder to change systems of corporate control.[64] This claim works through a specific mechanism: coalition governments, which are by definition built from different interests in society, will have difficulty overturning complex social compromises between different social groups. By way of contrast, governments elected in majoritarian systems, as in France, are more likely to rule as single-party governments, and thus to be able to introduce changes that break with past social promises. Does this mean the French majoritarian electoral system accounts for the dramatic change in French markets? As I show in Chapter 3, that change had little to do with government policy, and much more to do with the changing actions of senior managers. Moreover, at the time of institutional rupture France was governed by a coalition government including Socialists, Greens, and Communists. Thus, the correlation of the French electoral system with systemic change in corporate control is spurious.

Within comparative political research, the problem of how to test complex theories with simple data is endemic. The approach adopted here is to take political processes seriously as a source of information for adjudicating between various mechanisms of political change.[65] This information was gleaned from primary and secondary sources, as well as from fifty-eight interviews with leading actors in the politics of corporate control in the countries studied.[66] Coalitional and partisan theories make predictions about the process we should observe empirically if their mechanisms are the most adequate explanations of the outcomes observed. I compare these predictions with those derived from the quiet politics framework. Methodologically, the approach draws on what Peter Hall calls systematic process analysis, in which "the point is to see if the multiple actions and statements of the actors at each stage of the causal process are consistent with the image of the world implied by each theory."[67]

[64] Gourevitch and Shinn (2005), Pagano and Volpin (2005).

[65] Cf. Hedström and Swedberg (1998), Mahoney and Rueschemeyer (2003), George and Bennett (2004).

[66] I conducted all the interviews cited in this book, with the exception of some of the Dutch interviews, which were conducted in Dutch and transcribed into English by my research assistant David Vermijs (based on a semistructured interview protocol designed by me). In Japan, some of the interviews were conducted in English. Others were conducted in Japanese with the help of a simultaneous translator. All interviews are cited in footnotes by the date of interview. In many cases – particularly in the case of senior leaders of managerial organizations – these interviews were conducted on the condition of anonymity. I am grateful to all interviewees for their candid discussions with me, and their anonymity is protected in all cases where it was requested.

[67] Hall (2003: 394).

The intuition behind such an approach is that much useful information is lost when we collapse political processes of change into country-year observations on a limited number of values on explanatory and dependent variables. In the chapters that follow, I attempt to use the available information to assess the success of coalitional, partisan, and quiet politics theories in explaining the change and continuity we observe across these four cases.

The best data on policy salience would come from repeated mass surveys across countries about the importance of corporate control, relative to other political issues. No such data exist. Survey researchers rarely ask questions about popular preferences about corporate control, let alone about how voters evaluate the importance of corporate control relative to other issues of political concern. Moreover, survey research has its own set of problems for assessing the political salience of various issues. Those surveys that try to measure salience typically include a question asking respondents to name the "most important problem" confronting their country. Christopher Wlezien notes that this measure conflates two analytically distinct issues: whether an issue is considered important, and whether or not it is considered a problem.[68] His empirical analysis shows that answers to the "most important problem" question fluctuate wildly, while views about the underlying "importance" of a policy issue are much more stable.

In the absence of public opinion data, I use newspaper coverage as the best available indicator of policy salience. Coverage from major national newspapers has the advantage of being a "reproducible, valid, and transportable measure" of citizen attention to political issues, according to Lee Epstein and Jeffrey Segal.[69] Other studies of the policy-making process also use press coverage as an indicator of political attention to issues.[70] Public opinion scholars have acknowledged the usefulness of such measures, but they have cited the lack of existing data for cross-country measurement as an impediment to using press coverage as an indicator of salience.[71] One objection to existing studies, which often use newspaper coverage in the *New York Times* as their benchmark, is that the *Times* will tend to bias coverage toward the presumably left-of-center political concerns of its editorial board.[72] To counter this concern, I use coverage from major newspapers across the political spectrum in each of the empirical chapters. These chapters also explain the detailed methods for conducting searches across multiple newspapers within each country. Because we expect that business organizations will try to influence the tenor of press coverage, Chapters 3 and 4 also report protocols for assessing the frames under which the media covered political issues of corporate control.[73]

[68] Wlezien (2005).
[69] Epstein and Segal (2000).
[70] E.g., Jones and Baumgartner (2005), Smith (2000).
[71] Netjes and Binnema (2006).
[72] Epstein and Segal (2000).
[73] Cf. Chong and Druckman (2007).

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These techniques for assessing political salience of comparable issues across different political economies and the character of issue framing may be useful for other scholars in testing the propositions about political salience developed in this book.

Outline of the Book

The book's structure flows from the goal of evaluating competing causal mechanisms to account for different outcomes in regimes of corporate control. Chapter 2, thus, examines aggregate change and stability in the markets for corporate control in these countries. In the literature on comparative political economy, the institutions that contribute to the protection of passive markets for corporate control are known as patient capital.[74] To assess the overall degree of patient capital in the advanced industrial economies, Chapter 2 uses two different measures of ownership concentration – information on the largest single voting share and on the largest set of stable owners – as well as information on hostile takeover activity across eighteen advanced industrial economies. For the four countries examined in detail in this book, the chapter also examines the changes over time in nationally specific systems for securing passive markets of corporate control. As noted previously, Japan and the Netherlands used distinctive methods to prevent the emergence of an active market for corporate control: the "synthetic blockholders" of the *keiretsu* in Japan and the trust foundations in the Netherlands.[75]

Chapter 3 demonstrates that political parties are not big players in regimes of corporate control. The chapter examines developments in France and Germany from 1995 to 2006. Both countries saw governments of the left come to power during this time, and some scholars have looked at the political programs adopted by these governments as evidence of the importance of party politics for the reform of practices of corporate governance.[76] These party preferences were, in fact, soft, and they were reversed in the face of business lobbying. But equally important, those studies that look only at formal institutions fail to understand the big institutional changes that took place in France, because those changes took place in a set of informal arrangements among companies. As French managers reorganized to face international competition, they decided to abandon concentrated ownership and cross-shareholdings.[77] German managers of nonfinancial firms, meanwhile, were able to maintain their ownership networks despite the departure of many financial companies from those networks. *Pace* the partisan explanatory perspective, reformist governments played little role in these changes. *Pace* the coalitional perspective, labor unions and activist investors played little role in the French case, where

[74] Hall and Soskice (2001), Amable (2003).

[75] Gourevitch and Shinn (2005: 170, 183), Roe (2003: 92).

[76] Cioffi and Höpner (2006), Tiberghien (2007).

[77] Culpepper (2005), Goyer (2006a), O'Sullivan (2007).

the changes were driven largely by autonomous decisions at the top of the French industrial hierarchy.[78] So long as political issues are of low political salience, managerial organizations are likely to win political conflicts in both spheres. But their power resources are different in the informal and formal arenas, which is a distinction missed by scholarship focused only on formal institutional change.

Chapter 4 explores the politics of corporate control in the Netherlands. This is an important case for partisan and coalitional theories because the Dutch system does not depend on informal institutions supported by blockholders, as do systems in France and Germany. The protections of Dutch companies are politically constructed, and the battles over them take place in the formal arena. For Roe, these systems are stabilized by a political commitment to the stakeholder society; for Gourevitch and Shinn, these systems are stabilized by a corporatist coalition of managers and workers. From 1994 to 2006, the Netherlands was led by a coalition government that included prominent neoliberal reformers. At the same time, the country also saw a steep rise in the holdings of foreign shareholders. The managers of Dutch large firms, who have to win in the formal institutional arena in order to maintain their system of takeover protection, have a powerful lobbying organization devoted to the defense of these measures. This organization was successful in its major lobbying efforts because Dutch voters, and in turn Dutch political parties, do not care much about issues of corporate control. And even though Dutch rules are formally institutionalized, managers in the Netherlands still benefit from the proclivity of politicians to delegate the details of rule changes to informal bodies, in which managers are well-represented. Because of these political resources, at the end of a period when Dutch takeover protections came under repeated attack from neoliberals in the government, large companies in the Netherlands had successfully defended their passive market for corporate control.

The Japanese system of intercompany shareholding networks limited the possibility for hostile takeovers of most large companies until the late 1990s. As discussed in Chapter 5, Japanese managers did not dismantle this system intentionally, as did their counterparts in France. Instead, the network unraveled as a result of uncoordinated responses by managers to the challenges of the deep recession in Japan during that decade. Japan shared with the Netherlands two political factors emphasized by partisan and interest group theorists: a neoliberal group of reformers inside the ruling party (the Liberal Democratic Party, or LDP) and the dramatic growth in the ownership stakes of foreign institutional investors. In contrast to the situation in the Netherlands, organized employers were the reformist allies of these groups until 2002, actively favoring deregulatory reforms to support their own internal reorganization.[79] When the members of the reformist coalition clashed, as they did over a proposal to require independent board members for Japanese listed companies,

[78] Hancké (2002), Goyer (2006a).
[79] Schaede (2008).

organized employers were able to defeat the LDP reformers and institutional investors. After the first instances of takeovers that actually threatened large companies, in the summer of 2004 and January of 2005, organized Japanese managers turned decisively against the other members of the reformist coalition and pushed for new, formally enforced takeover protections. However, unlike in any of the other three cases, takeover politics became a high salience issue in Japan between 2005 and 2007. Thus, the tools of quiet politics were less useful to Japanese managers after 2005. They were only able to achieve their goals post-2004 by working through political parties, as partisan accounts suggest.[80] And they ultimately lost a battle to institutional investors over the issue of triangular mergers in 2007, as that fight played out in party politics under conditions of continued high salience.

Corporate control rarely achieves sustained political salience, as it did in the Japanese case. Using only the variation in political salience observed in Japan, which is consistent with the theory of quiet politics, would be a flimsy empirical foundation on which to rest broader claims about the distinctiveness of low salience politics. Because corporate control is rarely of high political salience, there is little variation in the salience of this area with which to test claims about the robustness of quiet politics. Chapter 6 remedies this shortcoming. It moves beyond the almost exclusively low salience cases of corporate control to consider what happens when the political salience of an issue changes from low to high. It looks at change over time in policy salience in a single policy area in two countries: the regulation of executive pay in France and the United States. In both countries, when the policy salience of this area was low, business groups tended to dominate through the mechanisms of lobbying and the deference of legislators and reporters. As salience rose, political parties became more sensitive to rising public wrath over executive pay packages, and business could no longer rely on its low salience resources of lobbying expertise and governmental deference. In the American press, Enron became a code word linking large pay packages with accounting malfeasance, and managerial expertise on this issue was discounted because the scandal raised questions about managerial competence. Under these conditions, the propositions of partisan theorists make sense, because under conditions of high salience, the success of business in repelling attempts to regulate pay depended on their proximity to parties in government. Where parties of the right were in power, business did substantially better in restraining government regulation of pay practices than when parties of the left were in power.

The final chapter of the book develops a general argument about the way in which the dimensions of political salience and institutional formality structure democratic politics. Business organizations often fail to get what they want on issues of high political salience, especially those contested in legislatures. By contrast, they very often succeed in achieving their political objectives in low salience issue areas, particularly those with a substantial degree of informal

[80] Tiberghien (2007).

governance. Understanding how these dimensions determine the likely arenas of political contestation in different issue domains illuminates several contentious issues in the study of politics. Chapter 7 explores two of these in some detail: the concept of business power and the character of institutional change in politics. Although the study of business power has been largely quiescent in political science since the mid-1980s, the practice of business influence on the state has been waxing. The global financial crisis of 2008, blamed largely on the deregulatory reforms fiercely advocated by business, has thrown into sharp relief the way in which business influence on deregulation has been an international phenomenon, not merely one limited to the United States. This chapter reflects on what we can now say about the role of business in politics, and of the relationship between business and the state, even as that relationship is in the midst of crisis-driven renegotiation around the world.