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Are Large, Globally Operating MNCs Undermining the Distinctiveness of Coordinated Market Economies? The Cases of Germany and Japan

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Abstract: This paper argues that the main agents and drivers of economic and financial globalization, large MNCs, are beginning to undermine the distinctiveness particularly of coordinated market economies, by facilitating various processes of disembedding. My argument draws on two strands of theory, positing the transformation of MNCs and their implied potential to weaken the distinctiveness of national models. I first review the work of Colin Crouch (2010) and Stephen Wilks (2013) who warn of the power of giant global companies to circumvent the influence of nation states. My second set of theories is that of corporate governance scholars who identify the changing distribution of power and value between companies' various stakeholders. They posit that large MNCs have become integrated into a global financial system in which institutional investors stipulate new forms of corporate governance that give priority to shareholders. To substantiate my claim that the distinctiveness of CMEs is being undermined, I investigate transformations in the corporate sectors of Germany and Japan. The paper focuses on the following areas: degree of transnationality of large corporations, particularly of any off-shoring of employment; ownership structures of firms and their extent of vulnerability to demands for reform from foreign institutional investors. I then gauge the impact of both types of global integration on the conditions of domestic labour and on the nature of industrial relations. I draw on secondary sources and official statistics to make my case. My conclusion is that the coordinated market economy of neither Germany nor Japan has as yet been fatally undermined by their giant globally integrated companies, but that the growing hybridization of their institutions and of firms' utilization of capital and labour poses a significant challenge to the CME model.

Keywords: MNCs, coordinated market economies, Japan, Germany, institutional transformation

JEL Classification Numbers: F23, G30, J30, J50

1. Introduction

The Varieties of Capitalism (VoC) thesis holds that the way firms coordinate their relations with other economic actors is strongly shaped by the social institutional environment in which they are embedded and that this, in turn, moulds their comparative advantage. Furthermore, the various institutions are interdependent and complementary, in that institutions in one functional domain influence outcomes in another. Common problems thus are solved in institutionally distinctive ways by companies from different national origins.

Given institutional embeddedness and complementarity, national models then develop in path-dependent ways and are not vulnerable to far-reaching transformation due to either external and internal impacts. Hall and Soskice (2001) explicitly rule out that globalization would change modes of coordination and undermine distinctive models. To the contrary, adaptation to global influences would occur in path-dependent ways, and specialization in particular patterns of coordination and performance would become even more, rather than less pronounced. Institutional factors, lending competitive advantage, would be protected by firms and states. It follows from this view that multinational companies remain domestically embedded and do not become placeless transnational companies, nor are they likely to fundamentally change their internal distribution of value and power.

The number of varieties of capitalisms identified varies between authors. However, the parsimonious dichotomous typology of Hall and Soskice (2001) - they distinguish between the types of Coordinated Market Economy (CME) and Liberal Market Economy (LME) - suffices as a starting position for this paper. Coordinated Market Economies (CMEs) differ from Liberal Market Economies (LMEs) in that they coordinate their activities strategically within networks, rather than via the market.

This paper argues that the main agents and drivers of economic and financial globalization, large MNCs, are beginning to undermine the distinctiveness particularly of coordinated market economies, by facilitating various processes of disembedding. My argument draws on two strands of theory, positing the transformation of MNCs and their implied potential to weaken the distinctiveness of national models. I will first review the work of Colin Crouch (2010) and of Stephen Wilks (2013) who warn of the power of giant global companies to circumvent the influence of nation states. One of their powers flows from competition between states to gain foreign direct investment and the global arbitrage it thereby facilitates for MNCs. MNCs, they suggest, undermine state capacity to regulate their economies in a nationally advantageous manner, particularly their ability to protect and promote national labour, as well as other domestic stakeholders. MNCs, they therefore imply, cease to be community firms or public institutions, with social obligations to temper their pursuit of maximum profit. (The strong focus of these two theorists on the nation state will not be taken up in this paper).

My second source of theoretical inspiration is the work of a multitude of corporate governance scholars who identify the changing distribution of power and value between companies' various stakeholders. They posit that large MNCs have become integrated into a global financial system in which institutional investors largely from the LMEs of US and Britain stipulate a shift in the form of corporate governance. New forms of corporate governance give priority to shareholders, rather than to domestic company stakeholders, such as employees, customers, suppliers and/or the local community in which companies are headquartered. Institutional investors, imbued with the ideology of market liberalization, thus demand disembedding. This occurs sometimes against the will of the top management team but often is initiated and welcomed by the latter.

Both these theoretical approaches imply a view of institutions and economic actors that differs from the VoC approach. They hold institutions to be more malleable, question the fixedness of specific patterns of complementarity between them and endow actors - globally acting companies and particularly their financial and managerial stakeholders - with much stronger agency than is suggested by the Varieties of Capitalism approach. Above all, they envisage significant transformation. Their claims would be more compatible with the theoretical approaches of Historical Institutionalists, such as Crouch (2004), Morgan et al (2005), Streeck and Thelen (2005); Deeg and Jackson (2007), Streeck (2009), Sako and Kotosaka (2012) and Thelen (2014) who usually see institutions emerging out of compromises, negotiated in coalitions between business, labour and the state. These authors regard the full reproduction of national models under the impact of globalisation as very problematic. Streeck and Thelen (2005) emphasise incremental change which may lead to processes of institutional transformation, ranging from layering via conversion to institutional exhaustion (ibid: 31). Wolfgang Streeck (1997) has even considered inevitable the dissolution of the CME model in Germany: 'By internationalising, and thereby disorganising, capital and labour markets, globalisation dissolves whatever negotiated coordination may have been nationally accomplished between them'. However, these critics have either not studied the impact of both (real) economic and financial globalization in systematic empirical terms, or their studies, often dating from the early to mid 2000s, are no longer up to date.

To substantiate my claim that the distinctiveness of CMEs is being undermined, I shall investigate transformations in the corporate sectors of Germany and Japan. Both countries possess a strong manufacturing industrial core and are heavily export-dependent. In both cases, the chosen production paradigm - a focus on diversified quality goods - requires long-term investment into fixed capital and labour, as well as close and long-term relations with suppliers.

In both cases, the paper will study the following areas: degree of transnationality of large corporations, particularly of any off-shoring of employment; ownership structures of firms and their extent of vulnerability to demands for reform from foreign institutional investors. Hassel et al (2001), investigating these two types of internationalization - real economic and financial, noted that, in the case of German firms, the two indicators do not necessarily yield the same ranking and should be studied separately, as is done in this paper. Last, I will gauge the impact of both types of global integration on the conditions of domestic labour and on the nature industrial relations. I draw on secondary sources and official statistics to make my case.

Although Germany and Japan differ in some of the structural features of their major institutions, there is nevertheless a lot of overlap in the way their institutions have functioned, namely to limit the marketization of both capital and labour (Jackson 2003: 263). In both Germany and Japan, traditional institutional arrangements, up to the early 1990s, included relational banking and long-termism in investment in both fixed capital and labour; formal and informal networking of companies in business associations and with supplier firms, as well as extensive cross shareholding with both banks and non-financial firms; and a notion of the firm fulfilling social obligations to various stakeholders, among which labour has been the paramount one. One of these obligations has been consultation over matters affecting their conditions of employment and another the preservation of employment stability/security for core workers.

Notable differences between the two countries have been that, in Germany, labour has had extensive legally enshrined consultation and participation rights at company level, and collective bargaining has occurred mainly at industry level. In Japan, in contrast, bargaining and pay settlements have occurred mainly at company level, and wide-spread joint labour management committees in large manufacturing companies have secured the institutionalization of employee participation rights, albeit without legal backing (Jackson 2007: 302). Regarding employment structures, Japan has been distinguished by guaranteeing lifetime employment and operating a seniority-based payment system. While German companies have not formally upheld lifetime employment, they nevertheless stand out among companies in developed economies in the high degree of employment security maintained. This arrangement, prevalent in the manufacturing sector, may be deemed close to lifetime employment in Japanese companies. Employment security, in turn, helps workers to invest in skills (Estevez-Abe et al 2001) which have been firm-specific in Japan (Abe and Hoshi 2007: 259f.) and more industry-oriented in Germany. Germany's training system is highly formalised and designed and administered at an industry-level, whereas the Japanese system is more informal and is oriented strictly to broad and flexible within-company deployment. Although Japanese labour has been weaker, more informal cultural orientations and expectations on the part of both management and labour have provided labour with extensive benefits and a relatively high degree of autonomy in production work (Walter and Zhang 2012a: 17). Concerning supplier relations, there is a higher degree of mutual dependence in Japan than in Germany where generally larger supplier companies preserve more autonomy (Dyer and Nobeoka 2000; Wilhelm 2011). German supplier companies usually are sufficiently strong to engage in FDI that parallels that of their buyers. Last, while German companies have a two-tier board structure - a supervisory board is independent from the executive board, Japanese companies have had a unitary board structure, consisting almost entirely of internally promoted managers (Jackson and Miyajima 2007: 5) and have eschewed external supervision. Some of these differences have led scholars such as Richard Whitley (2005) to distinguish between an 'inclusive corporatist' (Germany) and a 'business corporatist' (Japan) business system. This paper, in contrast, focuses on their commonalities and regards both countries as CMEs.

The rest of the paper is organised as follows. Section 2 presents the theoretical arguments introduced above in more detail. Section 3, an empirical investigation of the impact on the German and Japanese economy of large globally integrated companies, is in two parts. The first examines the extent of global activities by large domestically registered corporations. I then examine what proportion of MNCs is likely to become financialised by globally active investors and hence to be converted to a changed business strategy and internal distribution of power and value. I take as indicators of degree of financialization what proportion of MNCs is listed on stock markets and, in turn, what percentage of their shares is widely owned (as opposed to being owned by a few large block holders or being enmeshed in cross shareholdings). In the second part of section 3, I investigate to what extent and how far the resulting sample of seemingly trans-national companies have become disembedded from their respective home economies and have ceased to regard labour as prime stakeholders. The fourth and last section of the paper discusses the findings and explores their significance for any transformation to an LMEs or, alternatively, supporting the continuing distinctiveness of these two CMEs, particularly in some key features, underlying their production paradigm.

2. Some theories on the power of transnational companies

2.1. Theories about the growing political power of global corporations

Both Crouch (2010) and Wilks (2013) warn of the rapidly increasing political power of large corporations. They point to their considerable resources, namely their size, market power (oligopolies) and global reach, as forming the basis of it.

Colin Crouch (ibid) depicts what he calls 'the giant global company' (GGC) as rivalling and undermining the power of the nation state. By GGCs he means very large MNCs that, in their particular market, are part of an oligopoly. The adjective 'global' indicates that they are widely dispersed over the globe. GGCs, Crouch argues, acquire their power in three basic ways, of which only two are relevant here:

1. Because national governments are keen to receive their investment and the employment it creates, GGCs are enabled to engage in 'regime shopping', i.e. choosing the political setting which will provide the most advantageous regulatory terms or wage levels. It gives them the opportunity to bargain with politicians and employees to gain concessions. This power is being deployed against home states and domestic employees by threats of off-shoring large parts of companies' operating activities, thereby reducing domestic employment and/or levels of pay.
2. The power derived from companies' ability to use political arbitrage is further increased by the fact that they can and do use their huge material resources to buy favours from politicians, by supporting individual politicians or political parties standing for re-election with generous funds. (This second type of power cannot be investigated in this paper).

Crouch (2010) therefore concludes that the nation state now cannot effectively regulate GGCs as it is too beholden to them. It is implied by Crouch's thesis that, because the state has lost partial control of GGCs, it finds it much more difficult to protect standards of employment, welfare and pay of domestic employees and often anticipates cuts in standards expected by GGCs. Whereas there previously existed a consensus in CMEs between the state and companies that the latter have obligations to their employees and the community in which they are located these obligations are being eroded by GGCs. The socalled 'community firm' or the firm as a responsible citizen, previously an integral part of company values in

CMEs, is under attack. The pressures of competition in global markets from firms from LMEs serves as justification for such an attack.

Wilks (2013) identifies similar powers of GGCs and emphasises important differences between countries in the degree and nature of corporate power. For Wilks, the GGC does not dominate the state but becomes a 'vehicle' of government with a partnership status and integrated into government. Where the degree of participation in policy-making by private companies has become particularly strong, as in the UK, Wilks talks of the emergence of 'the corporate state' where corporations frequently dictate policy. In countries like Japan and Germany, in contrast, he sees more corporatist interaction between state and companies. However, Wilks (ibid) acknowledges that even in these countries corporatist arrangements are beginning to unravel.

In conclusion, both Crouch (2010) and Wilks (2013) point to the impact of GGCs on the nation state, undermining its capacity to regulate the relations between stakeholders in large domestic companies, leading to the weakening particularly of labour. As coordinated market economies have been characterised by higher employment security and by a more cooperative relation between capital and labour - replicated by formal institutions in Germany and by informal norms and negotiation at company level in Japan - the weakening of labour as a company stakeholder may be viewed as undermining the distinctiveness of this VoC.

2.2. Theories on changes in corporate governance

For political economy scholars corporate governance is about the distribution of power and responsibility within companies (Gourevitch and Shinn 2007: 1). The determination of company strategy and the ensuing structure of power decides who has a say in the distribution of resources and particularly how the value added created is distributed among multiple company stakeholders. A distinction is made between a 'shareholder-oriented' and a 'stakeholder-oriented' model. These neatly map onto basic features of the two varieties of capitalism, LMEs and CMEs.

A large number of authors have drawn our attention to the fact that the activities of globally operating investment funds are effecting important changes in companies' arrangements of corporate governance. These make companies lose their capacity to mediate between different company stakeholders, in favour of satisfying external investors' demand for increased profits and dividends. Like the work on the enhanced power of the GGC, many studies of corporate governance, too, point to a progressive process of disembedding from national institutional contexts. It is mainly global financial investors who are driving this process, but top management's differential willingness and capacity to accommodate or resist the demands of financial firms are also highlighted.

How then do investment funds lead companies to disembed from the national institutional environment and thereby undermine the distinctiveness, particularly of CMEs? It is primarily by imposing on top management an operating strategy which gives primacy to generating shareholder value, thereby reducing their responsibility to other company stakeholders, such as labour, suppliers and customers. Insisting on shareholder value is allied to an orientation towards company performance, emphasising short-term results where payment of top management in stock options sets incentives. Demands for divestiture of non-performing segments of the company to increase return on investment have been common, with obvious negative consequences for employment. To attract capital held by institutional investors, companies sometimes dilute previous block holdings in favour of becoming widely owned companies. This, in turn, may create a market for corporate control and facilitate foreign takeovers which may lead to asset stripping and large-scale loss of employment. A third impact of financialization on CMEs, though not its direct cause, has been that ties between companies and their house banks have become increasingly disrupted. In certain circumstances, this may undermine the previous long-termism in managers' investment strategy and hence production paradigm. All these changes together jeopardise domestic embeddedness and obviate the exercise of companies' social responsibility to domestic labour and to their country and region of origin. The distinctiveness of CMEs is thereby threatened.

3. Japan and Germany: Still examples of coordinated market economies?

The claims of the above theories will be tested in two steps. The first is to investigate 1. how prevalent are giant global companies in Germany and Japan; and 2. whether new modes of raising finance and changing ownership structures of large corporations have provided openings to a redistribution of value and power within companies. In a second step, I explore how any companies that correspond to these typifications have responded to the new opportunities available to them and to what degree any changed behaviour corrodes traditional patterns of coordination and undermines the status of their home economies as coordinated market economies.

3.1. How transnational are German and Japanese large corporations?

In both Germany and Japan, outward FDI has increased significantly between 1990 and 2009. It has risen from 8.8 per cent to 41.2 per cent of GDP in Germany. The corresponding figures for Japan of 4.1 and 16.5 per cent show both a much lower stock of outward investment and a lesser increase. However, to assess the degree of companies' transnationality, one has to examine what kind of activities have been relocated in this process. To do so, I examine calculations determining companies' Transnationality Index (TNI). This index, established by UNCTAD, calculates a weighted average of three measures for individual companies: proportion of foreign sales of all sales; proportion of foreign assets of all assets; and share of foreign employment of all employment. A figure of >75 indicates transnational status whereas one of above 50 shows that companies have more activities abroad than at home. Aggregating these numbers for all national companies then gives a national TNI. The average TNI for the world's 100 largest companies in 2012 was 64.6 (UNCTAD 2013).

A national average, in 2012, of 59.4 for Japan and 66.0 for Germany makes clear that neither country has many transnational companies, as defined by the TNI (ibid). However, the index for German companies shows that it is higher than the average for the world's 100 largest MNCs, whereas for Japan it is well below this mark. Germany has four large companies with an index above 75 while Japan has none. Japanese companies remain more enmeshed in their domestic networks with their suppliers.

However, the cut-off point of 75 to determine transnational status is very high and totally arbitrary. It should be seen as indicating only an order of magnitude. Both countries have a sizeable number of companies with an index above 50, that is they maintain more activities abroad than at home. Here it is particularly significant that a high proportion of giant German companies, but not of Japanese ones, now maintain more than 50 per cent of employment abroad, and foreign employment - enabling arbitrage at home - is a significant indicator of disembedding.

FDI may occur for a number of reasons, and only efficiency-seeking FDI is connected with employment relocation. Additionally, transnational outsourcing is a significant threat to employment and pay of domestic labour. (However, due to inadequate statistical measurement, it cannot be considered in this paper which will focus solely on off-shoring through FDI). Efficiency-seeking FDI increased significantly with the fall of communism in Central and Eastern Europe (CEE) and the entry of China into the global economic system, opening up countries with lower labour costs and a well-educated labour force. However, this provided more investment chances for German firms in countries which became part of the European Union than for Japanese firms as neighbouring Asian countries still remain politically more risky as investment sites. At the same time, global competition intensified and the cost-efficient quality of goods became a more important weapon. The reliance of both Japan and Germany on export markets put pressure on companies to both lower production costs and increase flexibility, while still preserving their highly skilled core labour force (Seifert 2010: 4).

In the terms set out by Crouch (2010) and Wilks (2013), only a small proportion of companies are so thoroughly globally integrated in economic terms to count as sufficiently powerful to have become detached from their domestic institutional environment. Nevertheless, if we consider the off-shoring that may be involved in FDI, as well as outsourcing, a substantial number now have more activities abroad than at home. German companies, being less deeply enmeshed in domestic supplier networks than their Japanese counterparts, have significantly more employment abroad than Japanese ones and must be considered more globally oriented. Last, it is well known (see Lane 2000) that even a small number of transnational companies, if they are flagship companies, exert isomorphic pressures (DiMaggio and Powell 1991), that is they are seen as models by less globally integrated companies.

3.2. How vulnerable are German and Japanese companies to the imposition of 'shareholder value' forms of corporate governance?

Is global financial integration more consequential for national disembedding of companies than is off-shoring of employment? To shift their mode of corporate governance towards the market direction and thereby change their internal distribution of power, companies have to be a. listed on the stock market; and b. be sufficiently widely owned to provide openings for internationally operating investment funds to acquire their shares.

Although substantially changed in both respects in recent decades, in general German and Japanese companies do not provide sufficient scope for institutional investors to push them in the direction of full market coordination. However, Japanese companies appear more vulnerable in this respect than German ones. The German stock market is relatively small, with a ratio of market capitalisation to GDP of only 40 per cent, compared to 111 and 135 per cent for the US and UK respectively (Deutsche Bundesbank 2014). Only a relatively small number of German public limited companies are listed on the stock market - 6.46 per cent in 2014 (Deutsche Bundesbank 2014), and of those quoted only a minority are widely held. However, among the DAX 30 companies, foreign ownership now stands at 63.7 per cent (up from 55.9 per cent in 2005) (ibid: 23, 27), and in 2008, there were fifteen in which the majority of shares was in foreign hands (Der Stern, 06, 2008). Very high proportions of foreign ownership exist in Adidas (79 per cent in 2007), Bayer (78 per cent in 2007), Daimler (72 per cent in 2010), Siemens (70 per cent in 2012), SAP (48.7 per cent in 2014), as well as in BASF and Linde.

However, due to remaining high levels of capital concentration in most German companies, foreign ownership has not risen as steeply as in Japan. Although banks and the state have withdrawn most of their ownership stakes German firms themselves have by and large continued crossholding. Thus, in 2014, an average of 18.3 per cent of shares of German companies were in the ownership of other non-financial companies, eclipsing the voting rights of foreign owners (Deutsche Bundesbank 2014: 23). Other non-financial firms and families remain the largest blockholders (Weber 2007). However, ownership concentration nevertheless has decreased, and banks' withdrawal as both shareholders and members of the supervisory board has forced more companies to seek capital on international financial markets. But in Germany, neither blockholding nor cross shareholding is a thing of the past (Fehre et al 2011: 47). Hence only a relatively small minority of German companies, albeit some very large and influential ones, like Mercedes, Siemens and Bayer, have adopted several elements of the 'shareholder value' type of governance and even fewer are vulnerable to hostile takeover. However, even where there is no strong exposure to institutional investors, many companies have introduced some dimensions of the market form of corporate governance (Lane 2000; Goutas and Lane 2009).

The Japanese stock market (the Nikkei 225) is much larger than the German one, and large internationally oriented companies have increasingly switched to listing, as banks have become either unable or unwilling to finance them (Walter and Zhang 2012b: 254). Buchanan and Deakin (2014) suggest that nearly all large companies are now listed on the stock market, and Wilks (2013) adds that more Japanese than German companies are listed. Of these, roughly one third depend on capital markets for external finance. Market pressures through institutional investors and bond ratings now play a major role in corporate governance (Jackson and Miyajima 2007: 19).

In Japan, ownership concentration was not very marked in the first place after WWII (Gourevitch and Shinn 2007). The decline of cross shareholding between banks and companies, starting in the mid-1990s, has been extensive (Miyajima and Kuroki 2007: 79), with a change from 18 per cent in the early 1990s to less than eight per cent by 2003 (Abe and Hoshi 2007: 260). Stable shareholdings (those owned by Japanese banks, insurance companies and non-financial companies) have declined steeply in the 2000s - much more so than in Germany. The decline was from 45.2 per cent of all shareholders in 1993 to 24.3 per cent in 2003 (the last time NLI RI (Nissei Kiso Kenkyu-jo) provided an estimate (Buchanan and Deakin 2014). However, Japanese business groups are said to be held together by much more than merely cross shareholding. They are usually related by long-term ties of common business interests and mutual dependencies (ibid). Production architectures are said to be integral, rather than modular (Tanaka 2014), with close interpenetration of buyers and suppliers.

Foreign holdings of shares by mainly institutional investors stood at around 33 per cent of all holdings in 2014 (West 2014), and quite a few companies have a high proportion of foreign institutional shareholders (Buchanan 2014, op.cit.). Institutional investors, largely coming from LMEs like the US and Britain (Ahmadjian and Robbins 2005: 457), found openings during the 1990s, after domestic stable shareholders had relinquished their shares. Among companies with significant foreign ownership are Hitachi (45.4%), Sony (42.3), Toyota (30.3%), Seiko Epson (25.7%), Shiseido (35.5), Dentsu (27.9, 12.6), and Kao (50.7). However, some companies have reduced this exposure to the stock market by share buy-backs, making many their own largest shareholders and preserving management's autonomy (Inagami 2009: 180).

Hence in both countries, the largest and most profitable companies are not only increasingly globally integrated in economic terms (more than 50 per cent of their operations are abroad), but also in financial terms (with a shareholding by foreign institutional investors of at least 30 per cent). However, in both Germany and Japan, many companies with exposure to institutional investors have succeeded in attracting the kind of investors who value or tolerate companies' continuing long-term investment horizons, such as pension funds (Goyer 2007 on Germany; Jacobi 2009 on Japan). Such shareholdings are said to be compatible with the difficulty experienced by chief executives in both countries, due to low concentration of power at the top, of quickly implementing change in the utilisation of labour (Goyer 2011: 123f).

3.3. The impact of economic and financial globalization on companies and economies

An examination of both the pattern of outward FDI (including data assembled by the Transnationality Index) and the degree of exposure to financialization of German and Japanese companies have made clear that only a minority of MNCs - some of the so-called flagship companies - have become sufficiently globally integrated in both economic and financial terms to be considered candidates for domestic disembedding and for turning into placeless global companies. While global economic integration - in terms of off-shoring through FDI - is much more marked among German companies, Japanese companies are more vulnerable to financialization.

3.3.1. The impact of global economic integration

The impact of outward FDI is very complex and difficult to assess in precise terms. Only efficiency-seeking FDI has an impact on domestic labour and even then it is not necessarily negative, if companies' overall profitability is increased and new domestic investment into the company ensues. Hence no quantitative comparative assessment is attempted. Instead examples from various industries will be given to reveal the extent of such efficiency-seeking FDI and the resulting effects on labour.

Germany

The literature indicates that companies are increasingly engaging in efficiency-seeking FDI and the off-shoring of jobs. Thus one of Germany's chemical giants, BASF, now has far fewer employees in Germany than abroad. It has recently expressed its dissatisfaction with Germany's high energy prices and level of ecological regulation by moving a substantial part of its production operations to the US, where both energy prices and levels of regulation are lower:

"That is a big reason BASF is expanding some of its plants in the United States and looking to build others….Already, BASF has doubled its annual investment in the United States to about $1 billion a year" (Reed and Eddy 2014, citing a Board member).

Hence its recent FDI is not primarily market-seeking but inspired by global arbitrage which will lead to substantial employment loss in Germany. It is no accident that the largest section of BASF shareholders in 2013 -16 per cent - were North American (Company website).

My second German example is from the automotive industry and concerns relocation of production activities to Central and Eastern Europe (CEE). Outward FDI and off-shoring on a large scale by German auto companies started in the mid-1990s but greatly intensified in the 2005-07 period (Krzywdzinski and Juergens 2009). Focusing on the VW company, the authors outline two very different FDI strategies undertaken: complementary and competitive. It is only the latter strategy which had VW transfer the manufacture of engines from two German towns to plants in Hungary and Poland, that led to a reduction of 4,600 jobs in the German plants between 1990 and 2007 (Krzywdzinski and Juergens 2009: 110). But the VW works council engaged in concession bargaining to limit job destruction in Germany, persuading management to guarantee the number of remaining jobs until 2011, as well as promise new investment. In return, workers had to accept what amounted to a 14 per cent reduction in pay (ibid: 210). Marin (2010), too, connects relocation to CEE with a sharp fall in German unit labour costs at home.

Whereas Krzywdzinski and Juergens (2009) only see an impact on less skilled jobs, Marin (2010: 2), talking about German FDI to CEE in general, claims that there now occurs 'downward pressure [even] on skilled wages in Germany'. The upgrading in terms of skills and capacities in CEE plants, noted by Krzywdzinski and Juergens (2009), would partially explain this effect. It does not bode well for the future of German workers. Krzywdzinski and Juergens (2009) feel justified to conclude that no hollowing-out of the German part of VW has taken place but that the impact of relocation has reduced the level of pay. While hollowing-out is very strong term, one cannot deny that VW no longer fulfils its social responsibility to the same extent as it did in the past. It is now uneasily poised between production at home and production in CEE, and the balance in favour of the latter has been increasing. It behaves at one and the same time as a transnational and as a German company. Moreover, VW is not alone among the automobile companies in engaging in off-shoring. Heymann 2014, cited by Kinderman (2014: 21) points out that, in 2013, the German car industry built 59 per cent more cars outside of Germany than it did inside the country. At the same time as assembly in CEE gained pace, an expanded components production has remained in Germany, partially explaining the absence of employment loss in Germany. (For further details, see below).

A third German example is the giant electrical/electronic conglomerate Siemens. Although Boersch (2009) thought the company still embedded in its home country in the early 2000s, its TNI of 77.9 in 2012 showed it to be a transnational company. One crucial indicator of disembedding, the proportion of foreign employment of all employment, stood at 67.75 in 2012 (World Investment Report 2013). Siemens have started to outsource many high-value functions, such as R&D, as well as formerly headquarter services, including accounting and personnel management functions (http://www.oecd.org/sti/ieconomy/35037882.pdf). In 2011, Siemens had more R&D employees outside Germany (16,000) than at home (11,000). The presence among host countries of developing ones like India, Mexico and China, as well as Croatia and Slovakia, suggests cost-saving as an important motivation in some of the off-shoring undertaken.

Japan

Japanese large companies, as the TNI calculations have shown, have been much more hesitant than German ones in moving production and employment abroad. In a 1999 volume on Japanese investment in Asia, compared with American investment, Encarnation (1999: 5) notes that Japanese companies engage in much more home country sourcing and intra-firm trade than US MNCs and are producing more for the host country market than for export. This indicates that off-shoring has not been the preferred Japanese option. Where it has occurred it took place mainly in low-skill industries like textiles and electronics where it has greatly accelerated in recent years (Buchanan 2014, personal communication).

With a few exceptions, off-shoring efforts have only become more notable since the 2008 recession and the appreciation of the Yen, as well as being a consequence of the earthquake. Although the currency has normalized since then once production has been off-shored, it is not easily brought home again. Among carmakers, Honda produces more than 80 per cent of cars abroad. Although a lot of this FDI has been market-driven, more recently efficiency-driven off-shoring has occurred. This has also been the case with Toyota (Inagaki 2014) although the latter have kept a majority - 62 per cent in 2013 - of their employees at home. Nissan, under the leadership of Carlos Ghosn - a 'truly global executive', has been off-shoring production for much longer, maintaining plants in China and Thailand, keeping only 25 per cent of production in Japan (Kirkland 2012). Nissan have recently intensified this strategy. Its expansion in Mexico will serve export worldwide and take away from production at the Kandamachi plant in Fukuoka prefecture, Kyushu and from Japanese workers (Harner 2013). In the electronics industry, Sony, a company with high foreign ownership, has long been engaged in off-shoring. More recently, prompted by the impact of the earthquake, Renesas Corporation - a maker of microprocessors - has stepped up outsourcing of production to well over 25 per cent of its total production (Dawson 2011). In contrast, Canon and Panasonic are both increasing production in Japan (Inagaki 2014). Despite the relatively modest scale of off-shoring in Japan, it has been unambiguously linked to an increase in atypical employment by the companies at home (Tomiura, E., Ito, B. and Wakasugi R. 2011).

In sum, Japanese companies, excepting only those with significant foreign ownership, have been much more hesitant to off-shore production than German companies. Only recent external and internal crises have prompted some of them to initiate more significant change. It appears that, judging from their relatively low score in the TNI on employment abroad as a proportion of all employment (see above) that they are still well behind Germany in this practice of disembedding. This is partly due to their deeper involvement in domestic supplier networks, as well as to their much more uncertain position in neighbouring Asian countries, as compared with Germany's position vis-à-vis the new member states of the European Union (Tanaka 2014). Journalistic comments on Japanese FDI, such as a 'hollowing out of the manufacturing sector' or even asking whether Japan is 'losing its soul' (Harner 2013) are still very premature. Moreover, in contrast to the German situation, off-shoring will rarely have led to domestic redundancies but, at most, to redeployment of employees within the wider business group (Jackson 2007; Buchanan 2014, personal communication) and to an expansion of atypical employment (not full-time and not permanent).

3.3.2. The impact of global financial integration/financialization

How fully has the notion of shareholder value been embraced and which of its several aspects have been accepted? There is a division among large German and Japanese companies on what form of corporate governance to adopt. Firms highly integrated into the global economy are said to be more favourable to the shareholder value model (Gourevich and Shinn 2007: 176). They need funds for making acquisitions to remain competitive. It is hard to decide whether this affects German companies (with a higher degree of economic global integration) more than Japanese companies (more financialised).

To answer the above question more precisely it is useful to distinguish between three different dimensions of corporate governance practices: the communicative, remunerative and the operational dimensions (Höpner 2001).

a. Changes in the communicative dimension of corporate governance

The communicative dimension looks at the extent to which companies, to satisfy demands from investors for greater transparency, cultivate investor relations, have become more ready to disclose information and have adopted the American accounting system. A code of corporate governance issued in the late 1990s in Germany had most listed companies comply with it. Listed companies have moved their standards of accountability, disclosure and information towards the standards of the US SEC (Securities and Exchange Commission), in order to create the stipulated level playing field for different groups of investors. Several large German firms have adopted international reporting standards and the US accounting system.

Japanese companies, in contrast, moved much later. Although a few companies, particularly those with significant foreign ownership (Ahmadjian 2007: 145), devote time to investor relations and have established financial transparency (Jackson and Miyajima 2007: 21), Japan is only now (2014) in the process of contemplating a proper reform of its corporate governance system, spurred by declining economic success and the sliding back of its stock market behind that of Hong Kong and Singapore (West 2014). Prime Minister Abe's planned corporate reforms in the Spring of 2015 seek once more to improve standards of disclosure, transparency and accountability by means of adopting outside directors.

A reform attempt only applicable to Japan has been the suggestion, in the Corporate Governance Forum of Japan's Interim Report of 1997, that companies adopt external directors to monitor and oversee the activities of the management board, particularly its accounts, salary payment and nomination activities. Inclusion of these stipulations into the Commercial Code and its highly uneven and partial implementation in 2003 had mainly a signalling (to shareholders) function. However, in the few cases where it was fully implemented, serious operational consequences occurred. Admitting external monitors into what had always been a very self-contained and closed company structure is seen as a radical departure. The notion of external and independent directors with no managerial experience in and knowledge of the company was perceived as American. It went right against the Japanese conception of the company as a community of managerial insiders, engaged in mutual monitoring. The principal employers' association Keidanren had been strongly opposed to any compulsory imposition. Consequently adoption of the initial reform ideas was made voluntary, and they became both highly diluted and were not widely embraced (Ahmadjian 2007: 145; Dore 2007: 374f.). Where outsiders have been invited to participate in company boards, they are mainly seen as advisors, rather than as monitors of management decision-making. (This account is based on Buchanan and Deakin 2014).

The communicative dimension also applies to what companies publicly declare (e.g. in their annual reports) to be doing towards the realisation of shareholder value, that is if they make a public commitment to shareholder primacy. Many German and Japanese companies prefer not to make such a commitment by adopting an alternative terminology, such as referring to corporate value (Deakin and Whittaker 2009 on Japan), workholder value to balance that of shareholder value (Volkswagen) or at most 'long-term shareholder value' (Mercedes) (Goutas and Lane 2009: 341). Thus, although the communicative dimension has been widely embraced in Germany, though less in Japan, this cannot necessarily be equated with accepting the notion of shareholder value and/or all of its more far-reaching strategic and operational implications.

b. Changes in the remunerative dimensions of corporate governance

In both countries, there had been implicit social contracts that entailed a fairly equal distribution of income, that is very large discrepancies between managerial and worker pay were avoided. In Japan this had become institutionalised in the notion of seniority-based remuneration, closely connected with that of lifetime employment. The postulate of 'shareholder value', in contrast, envisages that management is incentivised to pursue the latter by having their salary performance-related, often receiving part of their compensation in stock options. A full introduction of such new payment systems would constitute a significant challenge to both national models, but particularly to the Japanese.

In both countries, a changed system of remuneration has been adopted, particularly among listed companies, but in Japan stock options for managers came in only at the end of the 1990s (Jackson and Miyajima 2007: 5), and such schemes have remained quite modest relative to the US or the UK (Jackson 2007: 284, 293f.). In Germany, Siemens, for example, introduced a new incentive scheme in 1999 which left 60 per cent of top managers' pay variable, including stock options (Börsch 2009: 326). However, some of the variable bonus pay rewards longer-term performance, namely after three years (ibid). Some companies in both countries have subtly distanced themselves from the idea behind the new incentive scheme, by extending performance-based pay to both managers and their subordinates. In Germany, 70 per cent of the largest 100 companies had introduced performance-related pay by 2000 and 57 per cent had employee stock ownership programs (Jackson 2003: 290). In many companies, employees now also may become stockholders, thus reducing the payment gap with managers (Goutas and Lane 2009, on the cases of VW and Mercedes).

In Japan, lifetime employment and seniority wages had raised costs of labour and reduced flexibility and, during the stagnation of the 1990s, were seen to make Japan less competitive. The system of life-time employment and particularly seniority-based pay had increasingly come under attack (Abe and Hoshi 2007: 264; Dore 2009).

Since then the influence of foreign share owners in Japanese companies has been rising further. Sako and Kotosaka (2012), writing ten years later, find that seniority pay, allied to life-time employment, has been significantly diluted. Seifert (2010: 4) confirms the erosion of seniority pay. Jackson also points out that merit pay has become more common, undermining seniority-pay (Jackson 2007: 284), as well as reporting that elimination of seniority pay has been more common in firms with greater foreign ownership (Jackson 2007: 294). Most recently, following the Abe government's push for structural reform, several large blue-chip companies – namely Hitachi, Panasonic, Sony and now also Toyota - have announced a move from seniority-based to merit pay (Financial Times, 28.1.2015: 8). However, Japanese workers are widely paid performance-related bonuses (Seifert 2010: 4) which may serve to compensate at least partly for the rises in management pay, that are increasingly performance-related.

A second important aspect of remuneration is how value added is distributed between employees and shareholders. In both countries, from the 2000s onwards, there have occurred shifts in distribution, increasing dividends to shareholders and reducing the labour share. However, in neither country has this shift resulted in such a significant decrease of labour's share as in the two main LMEs (Jackson 2007:301-02 on Japan; Hassel and Beyer 2007 on Germany). Dore (2009: 161) nevertheless views this changing distribution of value to the disadvantage of employees as evidence for the sovereignty of the notion of shareholder value.

Hence, to sum up, in both Japan and Germany, labour's share of value-added received a moderate reduction, in favour of both managers' remuneration and pay-outs of dividends to shareholders. But in neither country have the income differences between managers and employees grown as starkly as in LMEs, such as the US and Britain, nor has the balance between capital and labour changed as drastically. This has been due to both stronger formal and informal moral checks on pay determination and to compensatory remuneration measures for employees. However, even in these two CMEs, shareholders have improved their relative position.

c. Changes in the operational dimension

Japan

During the 1990s and early 2000s, the balance of opinion was still that 'among the major industrial countries, Japan seems the least responsive to the …pressure of international flows in forcing governance reform towards the threshold of the shareholder value model' (Gourevitch and Shinn 2007: 177) and that 'the commitment to employees remains strong among Japanese managers '(Jackson 2003: 294). More recently, however, many companies, particularly the large listed ones, began to pay more attention to profitability. They began to change their stance on employment, aiming for greater flexibility in the deployment of labour, as well as for the lowering of labour costs. Those companies with a significant proportion of foreign shareholders also have shown a propensity to downsize and to divest assets (Ahmadjian 2007: 145), with inevitable negative consequences for employment. Despite the acceleration of change, reduction of employment has been much more modest and gradual than in LMEs like the US and UK and has been mostly accomplished without redundancies, by utilising re-deployment within groups, reducing hours and/or wages, early retirement and lack of hiring (Jackson 2007: 288-89).

It is difficult to draw firm conclusions concerning changes made in the norms and practices around lifetime employment and hence make precise comparisons with German practices. First, lifetime employment has never been formalised and remains an implicit moral contract between managers and employees. As such, no historical or contemporary official statistics on the practice exist, making an assessment of its prevalence and of any change therein a difficult task (Ono 2006). Moreover, lifetime employees have always been a relatively small proportion of the labour force, around 20 per cent (Ono 2006: 33), constituted by mainly male workers in the large manufacturing companies. Second, the literature abounds with both estimations of no or little change, as well as accounts with the opposite conclusion of a decline in the practice. Third, as lifetime employment is a unique Japanese concept - it presumes employment in the same firm from school graduation to retirement (ibid) - a direct comparison with German employment practice is not advisable. The only possibility is to compare employment security in the two countries as indicated by the length of tenure - a method found in internationally comparative statistics.

On the one side, resilience of traditional employment practices in Japan is emphasised by Deakin and Whittaker (2009), Jacoby (2009) and Culpepper (2011) although none offer detailed statistics to substantiate their claim. They assert continued employment stability of core workers, although they acknowledge that the core has shrunk and that atypical employment has increased.

On the other side, Dore (2009: 161) views this gradual process of attrition less sanguinely, as do Sako and Kotasaka (2012). The latter detect considerable change in the Japanese employment system, even if change has not constituted a frontal attack on old rights. For them lifetime employment or employment stability is threatened by the increase in atypical employment, as well as by small legislative changes regarding a reduction in the retirement age. Income guarantee, previously an integral part of life-time employment, has been eroded, and early retirement has been significantly increased, as well as occurring at the earlier age of 45 (ibid). Seifert (2010: 4), too, notes the weakening of lifetime employment.

Ono (2006: 34) identifies a decline in lifetime employment, if defined as a decline in standard full-time employment. He adds that lifetime employment varies by birth cohort and that it is much less prevalent among younger workers where job mobility has increased during the long recession. But he sees no strong threat to the system as 'workers - both the young and the old - desire employment security, and employers still feel obliged to preserve the system' (Ono 2006: 37). Ono's conclusion is confirmed by Kawaguchi and Ueno (2011) who point to a secular decline of years of job tenure for male workers. The relative tenure for male permanent-regular workers has a gradual declining trend for birth cohorts after 1950 (ibid), indicating the reduced employment security for mid-career entries and young graduate entries (Kambayashi and Kato 2012). However, a generalized practice of long-term employment remains more pervasive than in other countries (Ono 2006; Jackson 2007; Kambayashi and Kato 2012).

To sum up this section, despite the lack of definitive results and the disagreements between authors, one may conclude that employment stability has not been seriously threatened for those already in the company, but it has become harder to achieve for new entrants. Lifetime employment, even if diminished at the edges, continues to characterise large Japanese corporations as community firms, at least for core workers. Japanese employers have been able to preserve this institution even during hard times because they have pushed the pain of severance downward in the employment hierarchy, either to workers in their foreign subsidiaries or to those in the main firm on flexible employment contracts. This resilience is partly due to legal provision protecting those on standard and permanent contracts (Jackson 2007: 290), but it is also a matter of deep-seated norms which appear to be inviolable. However, the abandonment of seniority pay makes lifetime employment less attractive and is likely to undermine it more substantially in the years to come.

From the late 1990s, a greater use of different types of atypical or contingent workers began to occur in Japan. These workers experience a higher employment risk and a reduced earning potential. They are now used also in manufacturing on a continuous basis to turn fixed into variable costs and reduce personnel costs (Sako and Kotosaka 2012: 148). 'Atypical forms of employment' (not full-time and not with indefinite contract duration), they observe, 'are gradually destabilizing the old institution of lifetime employment' (Sako and Kotosaka 2012: 91). 'The fringe has grown and has been eating into the old core slowly but surely' (Sako and Kotosaka 2012: 149).

Atypical employment had increased from 20 to 34 per cent of the workforce by 2008 (Sako and Kotosaka 2012: 147), and in 2013, approximately 20 per cent of the total male work force was employed on short-term contracts of some kind, compared to less than 8 per cent in 1984 (Buchanan 2014, personal communication). The largest group are part-time workers, followed by despatched (by agencies) workers (ibid: 88). The proportion of despatched workers increased six-fold in just under a decade (1999-2007) (Sako and Kotosaka 2012: 89). These developments were flanked by legislative changes in the late 1990s which permitted an increase in the length of employment of contingent workers. This fairly far-reaching change in the area of employment has occurred uncharacteristically quickly because management's capacity for action has increased, due to both the weakening of organized labour and the availability of the exit option, i.e. closing Japanese factories and relocating to cheaper locations in Asia (Sako and Kotosaka 2012: 150).

Moves towards ever greater dualization of the labour market and away from the community firm were most pronounced among some of the large blue chip global companies. Sony, a company with many foreign institutional shareholders, was among the first to make changes, moving away from the stakeholder model. Most recently, faced by falling profitability - from 2008 to 2014 - it has cut thousands of jobs, as well as suppliers, and reduced its manufacturing operations all over the world.

Most of the changes in Japan have left a core of life-time employees intact, while, at the same time, gradually diminishing its scope and leaving real wages to stagnate and, more lately, even to decline (Financial Times, 28.1.2015: 8). Moreover, the working side-by-side in manufacturing of workers on standard and flexible contracts is regarded as a highly problematic issue (Buchanan 2014, personal communication).

Companies were able to implement these measures, due to changes in labour market institutions and, particularly, due to a progressive weakening of unions. Company performance has become increasingly important, and labour union density had declined to 18.7 per cent by 2008 (Sako and Kotosaka 2012: 88). There occurred a conversion of Shunto - the traditional centrally coordinated spring offensive on wages - as it redirected its goals. It has turned into a mere discussion forum on the macro economy and on atypical forms of employment and generally legitimizes pay restraint and flexible employment (Sako and Kotosaka 2012: 86f.). However, most accounts see a continuation of company-level cooperative negotiation between managements and core employees, as well as extensive managerial delegation to workers (Jackson 2007: 302; Walter and Zhang 2012).

Germany

In Germany, too, several operational adjustments have occurred indicating a move away from stakeholder capitalism. The onset of changes in the employment structure is held to have started earlier than in Japan, i.e. from 2002, the time of the Hartz reform, as well as signalling a fuller endorsement of shareholder value. Jackson (2003) comments that 'shareholder value has spread more rapidly among German companies and is highly correlated with capital market pressures' (Jackson 2003: 297) and international product market competition. In 2003, Streeck and Höpner noted that 'the release of corporations from social obligations is very advanced in Germany, and it is irreversible'. Barker (2010: 233) confirmed that 'corporate behaviour no longer considers insider labour's interests, either in terms of wage levels or stability of employment'.

What were these employment adjustments? The informally established norm of employment security was undermined in a number of ways. Massive job reduction took place in some widely-held firms, such as Siemens and Mercedes, as well as in the former Hoechst. In other firms, such as Bayer, de-conglomeration and the adoption of de-centralized profitability targets also took place at the expense of employment security. However, despite extensive relocation of production, the overall reduction of employment in Germany has been very modest, even during the recent recession. German employment fell by only 0.5 per cent during the recession following 2008, in contrast to developments in the US and UK (Burda and Hunt 2011). This points to a continuing managerial strategy of preserving employment security for core workers in manufacturing. According to Hassel (2011: 15), 'employment protection has remained strong', and the safeguards protecting core workers remain formidable (Thelen 2014: 131). Nevertheless, a less visible reduction of employment through cuts in hours and, in Japan, in years of employment (through lowering the retirement year) has occurred in both countries.

To gain flexibility and lower wage costs in the face of continuing employment security for most core workers, three strategies have been employed by German managers. First, as in Japan, there has occurred a spread of atypical employment and the accompanying dualization of labour markets. Although the definitions of what is atypical employment and how it is regulated subtly differ in the two countries, both see it as the opposite of full-time employment of unlimited duration. Also companies in both countries use this type of labour for reducing costs and increasing flexibility. Germany's level of atypical employment is similar to that of Japan, 37 per cent to Japan's 34 per cent, and the increase also has occurred roughly in parallel (Seifert 2010: 12). In both countries, part-time employment is by far the largest component. In Germany, in contrast to Japan, this type of employment is not generally worse paid, nor is it invariably insecure, and it is often *chosen* by women, rather than being imposed by employers (ibid: 19). It is thus rarely found in the manufacturing sector (Hassel 2011: 16). Atypical workers in manufacturing companies amounted to less than 7 per cent (ibid). Another type of atypical employment – fixed term contracts – is frequently used in manufacturing.

Second, one type of atypical employment now has a big weight in Germany - accounting for between 14.5 per cent (Seifert 2010: 13) and over 20 per cent (Thelen 2014: 131) of all employed - namely marginal employment, involving the creation of so-called mini jobs. This type of employment is not distinguished by length of working time, but by a low income (approx. Euros 4,800/yen 611,000 per year), and earnings at or below this level are free from tax and other levies (Seifert 2010: 7; Hassel 2011). This has led to particularly crass differences in income between these types of workers and the rest and has assigned many of the holders of mini jobs to the working poor (Hassel 2011). This development in particular has introduced a marked degree of dualism or employment segmentation into the German economy (Hassel 2011). However, as atypical employment is mainly found in the service sector, it has not significantly affected Germany's production paradigm.

Third, flexibility has been gained by the introduction of working time accounts. These permit employers to use overtime for free as long as working time is cut by an equal amount within a defined window of time. Thus although relatively high employment security continues there has occurred an overall quite large decline in hours (Burda and Hunt 2011) which has resulted in cost savings, but also in avoidance of dismissals (Hassel 2011: 29).

Another notable development, indicative of a shift in Germany from stakeholder to shareholder value, consists of the way wage costs have been held down. Several authors comment on the long stagnation and, in some periods, even decline in levels of wages. Brenke (2009) points out that net real wages have hardly risen since the beginning of the 1990s. Since 2007, they have even been on an accelerating downward trend, despite a shift to better-educated employees (Brenke 2009: 194). Real compensation per employee fell by 9% in the period of 2000-2008, more than in other EU countries. Distribution of income has increasingly shifted in favour of the recipients of proceeds from investment (Brenke 2009: 201). Moreover, low pay is gradually diffusing from atypical work also into the core of the labour market (Hassel 2011: 20).

Just as in Japan, this deterioration in the conditions of labour took place in the context of a weakening of unions and a shift of negotiation from the industry-level to more cooperative works councils within companies. The result has been an attenuation of the traditional centralized bargaining between unions and employers at industry level. Not only has a significant minority of employers left the employers' associations, but remaining industry agreements have lost their encompassing and obligatory nature (Hassel 2011:6). Plant-level agreements were reached in one third of private companies at the end of the 1990s (Hassel 2011: 13). This is due to a wide-spread permission of opening clauses in industry agreements, permitting a lowering of agreed standards at company level (ibid; Kinderman 2014: 22). Sector level bargaining that previously stabilized employment has eroded, and the share of workers covered by any kind of union agreement has sharply declined (Kinderman 2014). In the decade between 1995 and 2005, workplace coverage declined from 53 per cent to 37 per cent, and the corresponding figures for employee coverage have been 72 and 57 per cent (Paster 2012: 172, Figure 10.1). This decline is employer-initiated, rather than being due to union decline (Paster 2012: 173).

However, larger firms are more likely to remain unionized that SMEs (ibid: 174).

Overall, the old 'inclusive corporatism' noted by Whitley (2005) is on the way out, and Germany is now leaning closer to the 'business corporatist' system he associates with Japan. In the context of wide-spread outsourcing to eastern Europe, works councils routinely negotiate site pacts to keep high value-added production in Germany. However, success usually results in significant concessions by labour, lowering either the cost of German labour or increasing its flexible deployment in exchange for a guarantee of a number of years of employment security (Hassel 2011; Paster 2012: 176). Works councils have been transformed into bodies of co-management, rather than acting as a locus of contestation and resistance (Thelen and Kume 2003). Kinderman (2014), in his detailed analysis of a manifesto issued by Gesamtmetall (employers' association in the very large metal industry), the New Social Market Initiative, shows fairly convincingly that these representatives of GGCs are advocates of further liberalization, rather than defenders of firms' social obligations. They seek to reduce what they perceive as burdensome constraints, embodied in the central institutions of a CME (ibid).

In sum, in both Japan and Germany an embrace of shareholder value has mainly occurred among a minority of companies, that is mainly the large flagship firms, economically and financially globally integrated to a relatively high and growing degree. But even among these companies, some dimensions of shareholder value have not been embraced fully or have been reinterpreted so as to benefit all stakeholders, even if not equally. Japanese managers are said to have been much more reluctant than German ones in adopting the notion of shareholder value at the expense of labour as a key stakeholder (Jackson 2007: 290). However, the greater exposure of Japanese than German companies to foreign investors ultimately makes them more exposed to stock market pressures.

Despite this often hesitant embrace of the notion of shareholder value, competitive pressures in both countries nevertheless have led to deleterious effects on labour.

Yet in neither case can one talk of a whole-sale abandonment of their traditional employment model but more of an extensive chipping-away at employment standards and payment levels. At the same time, notable efforts have been made by managements of manufacturing firms in both countries to match long-termism in investment of capital with a long-term perspective also on labour deployment. This is deemed necessary for the investment in training - the basis for the production of quality goods that companies in both countries continue to compete on in international markets.

Although institutional investors may discipline non-cooperative managers with a discounted share price, the ultimate sanction of hostile takeover has not been reliably achieved in either country (excepting only the takeover of German Mannesmann). This is partly due to legal changes making it more difficult but also, particularly in Japan, to the business culture which would make it very difficult to 'digest' an acquired company against the opposition of a united 'insider' management (Dore 2007: 388). It is also notable that investors have been largely self-selected in that pension funds, favouring/tolerating a longer time horizon on return on investment, have been prominent in both Japanese and German firms (Jacobi 2009; Goyer 2007). Hence it is widely believed that one central aspect of coordinated market capitalism, a long-termism in investment behaviour, has been preserved in both countries. Commentators on Germany furthermore emphasise the continuing commitment to skill training, another essential component of a CME. As Thelen (2014: 87) points out, 'the German training system is wholeheartedly embraced by manufacturing'. Although in both countries, the central core of skilled and committed workers are no longer the powerful stakeholder they were in the past, they nevertheless have remained an essential part of the production paradigm.

4. Discussion and conclusions

Change, in both the German and the Japanese economy, although mainly incremental, has occurred on many fronts. Precipitants of change have been both external (pressures from global financial and product markets) and internal. GGCs have been central in spearheading change. Their often transnational status and the arbitrage between regulatory regimes this facilitates has provided them with an opening for abandoning old obligations. Furthermore, their financialization has frequently given them the push to utilise this opening. According to the calculations of a British economist, Engelbert Stockhammer, based on 71 countries, (quoted in The Guardian G2, 10.11.14: 5), companies' global financial integration - their financialization - has been most implicated in the falling wage share experienced during the last fifteen years.

Very few of these GGCs may be considered transnational in the strictest sense, that is if one only takes the stringent definition posited by the TNI. However, more companies appear to be disembedding, if one includes all companies that maintain more activities abroad than at home, especially where employment is concerned. Among these large blue chip companies, those which are listed on the stock exchange, are widely owned and have substantial ownership by foreign investment funds, have largely ceased to be community firms that consider themselves obligated to labour and to local communities. Changes in the distribution of power and value in favour of shareholders and away from other stakeholders, such as labour, have been occurring in both countries. While such companies are only a minority in both Japan and Germany, their weight has gradually increased and, given their flagship status, isomorphic pressures on other companies have been discerned.

How then have these highly international and increasingly globally integrated companies affected their home locations and what changes have they wrought? Has their impact left the German and Japanese variety of capitalism, usually referred to as coordinated market economies, in its distinctive traditional form or has convergence towards the liberal market type occurred? The brief answer is that both path-dependent distinctiveness-preserving development and some degree of convergence to the LME type have occurred. A hybrid type has emerged, with elements of both original types combined in a complex manner where both capital and labour have undergone some degree of marketization. Both the German and the Japanese economy remain distinct from LMEs in that their capital markets remain less developed, employment security and the fostering of employee skill remain significantly higher at least for a core labour force in manufacturing, and relations between capital and labour, although deteriorated, remain more cooperative.

Nevertheless, change in institutional arrangements and methods and degree of coordination have undergone further significant change in the last two decades or so, undermining the notion of the community firm with social obligations to labour and the domestic location. Let me amplify these points in further detail.

First, the ties of companies to the financial system in both Japan and Germany have fundamentally changed. Banks have largely withdrawn from support networks of giant global companies. They no longer advance long-term investment capital and have surrendered their monitoring role, nor do they offer protection against bankruptcy or hostile takeover. However, although banks no longer play a significant role in guaranteeing long-termism, companies have not given up its pursuit. To this end, they have established alternative institutional arrangements, namely listing on stock markets and integration into a global capital market. However, this has not only eliminated one area of close coordination but has also introduced new risks and sources of instability. Those companies that have become widely owned and attract more short-termist investment funds also open themselves to investor pressure for generating shareholder value at the expense of other stakeholders, particularly their employees. The latter no longer invariably enjoy employment security, nor are they guaranteed a fair share in increased profits in the form of steadily rising wages. Consequently, they face growing inequality as managers' incomes rise more steadily than their own. In both countries, the weakening of unions and the gradual unravelling of old participatory industrial relations structures (Hassel 2011; Paster 2012; Sako and Kotosato 2012) both facilitate labour's greater exposure to market forces and leave them less able to challenge the resulting deterioration in conditions of employment.

Second, this imperfect complementarity between the financial and the employment and industrial relations systems and the sharper segmentation of labour markets it has introduced is further sustained by GGCs' changed production strategy. Utilizing both FDI and outsourcing, this strategy now relies more strongly on cheaper labour in foreign locations. In a range of companies, employment abroad now outstrips that at home. Such globally or highly internationally integrated companies no longer show the same deep obligation to their employees or their local community but are progressively becoming more disembedded from their domestic location. At most, these companies will use institutions like the works council (Germany) or the shunto spring offensive (Japan) to extract concessions from labour, in exchange for not relocating further production operations.

Third, in both countries, companies are no longer as densely networked as in the past. In Japan, cross shareholding has declined significantly, and in Germany employers' associations have been weakened by the extensive defection of firms. Rather than forging and maintaining network ties at home, many companies now operate more individually and put more effort into positioning themselves in the global economy. However, they still remain more enmeshed in industry networks than companies in LMEs.

In all three areas, we are talking of domestic disembedding only in relation to a relatively small number of GGCs that raise capital on stock markets and are widely owned. However, as these are blue-chip companies they exert isomorphic pressures (DiMaggio and Powel 1991) also on companies less exposed to marketization. However, in both Japan and Germany, there also remain large companies that have actively resisted marketization and preserve close ties with labour, as well as coordination in various networks. A German (but no longer shining) example is Volkswagen, and in Japan Cannon and Toyota may be viewed in these terms.

Many of these developments have been identified by other authors (e.g, Beyer and Hoepner (2003), Jackson (2007), Streeck (2009), Deakin and Whittaker (2009); Sako and Kotosaka (2012), who also have summed up this increasing marketization and movement away from a CME type with the term 'hybridization'. But the label of hybridization only takes us so far. It does not inform us how far the German and Japanese varieties of capitalism have moved along the continuum. It does not clarify whether we have reached a tipping point where convergence towards the LME type is only a matter of time. To gauge the degree of change more precisely we have to ask whether and to what extent the key institutional arrangements which have upheld distinctive production models in manufacturing are still being preserved.

To answer this question, this tipping point has not yet been reached. In both Japan and in Germany, interdependence between corporate finance and a particular usage of human resources has endured, particularly for firms competing in global markets. Managements in manufacturing firms continue to pursue a strategy where production of high-quality and reliable goods leads companies to attract patient capital even on stock markets and to rely on highly skilled and committed labour. To gain commitment from labour, long-termism in employment contracts survives in essence, and industrial relations, despite a weakening of the old 'conflictual partnership', have remained largely cooperative. Hence most key institutional arrangements to support the pursuit of these ends have remained in place, albeit for only a part of the labour force. The core has been shrinking and management increasingly operates a dualistic strategy towards labour. Also labour has become a very weak partner and consultation usually ends in a bigger concession on the side of labour than of management. Moreover, a few firms - usually those with a significant Anglo-Saxon ownership component - have reduced their reliance on domestic skilled labour to a dangerously low point.

Has change in the social system of production towards hybridity proceeded at equal speed and gone equally far in Germany and Japan? Paradoxically, advance has been much more notable in Germany. In Germany, a number of the giant, highly globally integrated companies, like Mercedes, Siemens, BASF and Bayer, have embraced new forms of corporate governance in many of its dimensions, and they have also undertaken significant off-shoring. In Japan, in contrast, only Sony and Nissan have gone as far, and more companies have openly resisted giving in to most of the pressures exerted by institutional investors (Fields 2012; West 2014). FDI and particularly off-shoring is not nearly as developed as in Germany. I see this outcome as a paradox because some institutional and contextual arrangements in Japan point in the opposite direction. First, Japanese companies - due to their lesser ability to rely on stable shareholdings - appear more exposed to pressures for shareholder value. Yet German companies have been more disposed to follow the neo-liberal siren calls. Second, reform of labour utilization, departing from old conceptions of social obligation, should have been harder in Germany than in Japan, due to the fact that German labour continues to hold some legally-enshrined stakeholder power, exerted primarily through works councils. Third, Japan has experienced a much more prolonged economic downturn/stagnation than Germany which normally would lead to sustained questioning of established organizational practices and institutional systems.

Why has not more change occurred in Japan? According to Fields (2012: 61), Japan's vested interests are all conservative, in the sense of refusing to surrender the Japanese way of doing business, and are said to comprise 'a stasis coalition that has quite effectively blocked change'. First, the preponderance on the majority of company boards of life-time managers, coupled with the absence of external directors, has predisposed managers to maintain the notion of 'community firm' and the obligation to labour this entails, even during very difficult economic times and in opposition to the demands of foreign shareholders (Jackson 2007). Second, this conservatism is partly explained by companies' 'integral' conception of product architectures where buyers and suppliers are highly interdependent and where horizontal relations between suppliers abound (Tanaka 2014), making off-shoring much more difficult. Third, key political and bureaucratic actors have facilitated non-compliance with neo-liberal reforms. Among these the top industry association, Keidanren, which organises particularly large companies, also has supported resistance (Buchanan 2014; West 2014). Their German political equivalents, in contrast, occupy a much broader political spectrum, as well as being farther removed from business. The top German business association, the BDI, has oscillated between acceptance of the status quo and keen promotion of reform in a neo-liberal direction (Kinderman 2014). Whereas coordination in the past has been for joint gains of the two sides of the industrial divide, it currently mainly benefits employers or, at best, also the shrinking core of permanent employees. Moreover, German MNCs are not stabilised to the same degree as are Japanese firms by long-serving managers and an absence of external directors, nor do their product architectures integrate them into domestic supplier networks to the same high degree as is customary in Japan. In sum, the case of Japan shows that pressures from foreign shareholders are not necessarily as effective as is generally posited in the literature, especially if investors are not short-termist. While making some adjustments at the margins, they can be resisted up to a point if managerial and political elites are united in their attachment to more traditional inclusive economic and social values. In Germany, in contrast, this high degree of consensus does no longer exist.

In conclusion, what implications does recent movement towards increasing liberalization in Japan and, more so, in Germany have for comparative capitalism theory? Should we relinquish the VoC approach by Hall and Soskice and instead embrace the 'political resources' paradigm of historical institutionalism? Or are both approaches flawed in some ways? The VoC approach, despite its many weaknesses, still captures a reality, as outlined above. Despite extensive economic and financial globalization, CMEs remain more networked than LMEs, continue to focus on long-termism and highly qualified labour in their production paradigm, as well as continuing to view core employees as valued stakeholders. Requisite institutional arrangements have been reproduced in a path-dependent manner. Although institutional complementarity has been largely preserved the substitution of bank financing by stock market-financing has introduced a much greater diversity in company responses and managerial behaviour than was common in the traditional CME model. This is due to the interaction between a stable institutional arrangement - long-termism in the utilization of human resources in manufacturing industry, and a changed institution, namely the institution concerned with the provision of investment capital.

However, the VoC approach is mistaken to view changes as mere adjustments and to ignore that many changes are antithetical to CME characteristics and have ushered in hybridity. The approach cannot explain the steadily shrinking core, the dwindling strengths of unions and the decreasing share of labour in business value-added.

Historical institutionalism affords a better understanding of the nature of institutions and, through concepts, such as institutional layering and conversion, of the nature of change (e.g. in Thelen and Streeck 2005; Thelen 2014: 30). However, Thelen (2014) overemphasises the importance of internal political coalitions in bringing about change and unduly minimises external precipitants of change. While this approach served us well when explaining historical development during most of the post-war period, it is weaker when explaining current change. Yes, top managers in Germany and, to a much lesser degree in Japan, have been important agents of change during the last two decades or so, but they have largely initiated it on their own and have confronted labour with faits accomplis. Bargaining still takes place, but it is mainly concession bargaining, and labour now is unable to determine the direction of change. Thelen's (2014) claim that manufacturing employers will not be at the forefront of demands for liberalization seems to be out of touch with what has happened in German GGCs. Those who have conducted recent in-depth studies of employers show that 'German employers have become a force for the liberalization…of labour markets' (Paster 2012; cf. also Kinderman 2014). In responding to increasing economic and financial global integration, managements have sought solutions for their companies and for themselves, rather than privileging their domestic location and stakeholders. While some top managers have embraced greater marketization willingly and even in the absence of pressures from capital markets, others, particularly in Japan, have held fast to long-established and deep convictions about stakeholder capitalism.

In conclusion, the coordinated market economy of neither Germany nor Japan has as yet been fatally undermined by their giant globally integrated companies, but the growing hybridization of their institutions and of firms' utilization of capital and labour pose a significant challenge to the CME model. Moreover, the progressive nature of globalization and the remaining scope for further global economic and financial integration of German and Japanese companies does not augur well for the preservation of distinctiveness of CMEs in decades to come.

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