# REVISITING THE PARTY PARADOX OF FINANCE CAPITALISM: EVIDENCE FROM SWITZERLAND, SWEDEN AND THE NETHERLANDS

Centre for Business Research, University of Cambridge
Working Paper No. 372

by

Gerhard Schnyder
Centre for Business Research
University of Cambridge
Judge Business School Building
Cambridge, CB21AG
Email: g.schnyder@cbr.cam.ac.uk

December 2008

This working paper forms part of the CBR Research Programme on Corporate Governance.

**Abstract**
The 'party paradox' thesis claims that centre-left parties have a genuine interest in pro-shareholder corporate governance reforms, while centre-right parties oppose such reforms. Based on case studies of Switzerland, Sweden, and the Netherlands, I test the accuracy of this thesis and find that it does not apply to either of these cases: in Switzerland pro-shareholder reforms were made possible by centre-right not centre-left support; In Sweden and the Netherlands pro-shareholder reforms were marginal, because a broad coalition uniting centre-right and centre-left opposed them. My findings show therefore that the 'party paradox' is not a universal phenomenon and that most micro-level explanations of this phenomenon are inaccurate. In order to explain in which cases a party paradox will emerge, we need to add the nature of relations between employees and employers (cooperative vs. confrontational) as a determinant of centre-left preferences.

**JEL Classification**: P52, K22

**Keywords**: Corporate governance, legal reform, Switzerland, Sweden, the Netherlands

**Acknowledgements**

I am grateful to Pepper Culpepper, Martin Höpner, Gregory Jackson, Martin Lüpold, André Mach and Samantha Sharpe for helpful comments on different versions of this paper. I am also grateful to Eelke Heemskerk and Anna Stafsudd for advice on the Dutch and Swedish cases.

Further information about the Centre for Business Research can be found at the following address: www.cbr.cam.ac.uk.

## 1. Introduction

Based on assumptions derived from agency theory (Jensen & Meckling 1976), most corporate governance theories see struggles over corporate governance mainly as a conflict between insiders and outsiders of the company. They consider that corporate insiders profit from 'agency costs' and are therefore opposed to attempts to increase external control over companies. This reasoning is applied not only to managers, but also to employees and their representatives in the political arena. Trade unions and social democratic parties are therefore expected to oppose shareholder-orientated corporate governance reforms (see notably Roe 2003, Pagano & Volpin 2005).

Cioffi and Höpner (2006, 2006a) provide empirical evidence, which contradicts this view. They find that political processes of corporate governance reform during the 1990s and 2000s have been marked in several countries by a 'party paradox': while centre-left parties pushed for pro-shareholder reforms, centre-right parties defended the traditional insider system. They explain this situation by the fact that political actors do not perceive corporate governance reforms as an insider-outsider conflict, where employees and managers oppose outside investors, nor as a class conflict where mangers and investors would oppose labour, but as a conflict over managerial control where labour and outside investors share different common interests. Based on their case studies, Cioffi and Höpner (2006a: 433) conclude that the 'natural pre-strategic preferences' of labour concerning corporate governance reform is to favour, not to oppose, shareholder-orientated reform.

One crucial factor, which explains according to Cioffi and Höpner (2006: 488) the party paradox, is the fact that labour favour pro-shareholder reforms as a means of breaking managerial power that is based on extra-market instruments of corporate control. This is indeed a plausible attitude for labour and centre-left parties in systems like Germany, Italy, France, and the US, where the corporate governance system was established mainly by the business elite in collaboration with centre-right parties and went largely against the interests of labour. This argument also implies however, that in countries where labour participated in the establishment of the corporate governance system, labour has no incentive to favour pro-shareholder reform. In such countries, we would hence expect the political coalitions over corporate governance issues to be different from the ones identified by Cioffi and Höpner (2006).

More collaborative relations between labour and employers and between centre-left and centre-right parties prevail especially in small, corporatist countries (see Katzenstein 1985).

Based on case studies of Switzerland, Sweden, and the Netherlands, I find that only one of the three countries – Switzerland – shows at some point a 'party paradox', while in the two other cases the 'insider – outsider' opposition seems to prevail. Conversely, Switzerland contradicts the 'party paradox thesis' in that a considerable part of centre-right parties supported pro-shareholder reforms.

Given that most of the explanatory factors that Cioffi and Höpner (2006) single out for the 'party paradox' are present in all three cases analyzed here, I argue that only the nature of the relations that exist between employers and employees and the historical role that the left played in the emergence of the corporate governance system allow us to explain labour preferences in all cases.

The paper is structured as follows: after the discussion of theories of the politics of corporate governance reform and a brief methodological note, I describe the recent reform processes of corporate governance in each one of the three countries. I then compare the determinants of centre-left and centre-right actors put forward by Cioffi and Höpner with the evidence from the three cases. A final part concludes.

**2. The 'Party Paradox' of Finance Capitalism**

Roe (2003) explains the differences between insider-orientated corporate governance regimes, where ownership is concentrated and minority shareholders have few legal protections, on the one hand, and shareholder-orientated regimes on the other, by the varying strength of social democratic parties. In 'social democracies' – that is, were the left is politically and ideologically strong – labour makes credible additional claims on firm assets, which pushes blockholders to hold on to their stakes in order to oppose these claims. At the political level, Roe (2003: 46) expects a general reluctance of the left to promote instruments of external control, such as measures favouring takeovers. This theory implies hence that where social democrats are strong, the corporate governance system will be insider-orientated and outsider investors will be badly protected.

Cioffi and Höpner's (2006) findings for the cases of Germany, Italy, France, and – to a lesser extent – the US, contradict this account. Rather than an opposition between 'capital' and labour, the former pushing for reform, the latter opposing it, they find that shareholder-orientated corporate governance reforms during the 1990s were mainly supported by centre-left parties, while centre-right parties opposed them.

This situation is counterintuitive since an increase in the shareholder-orientation of a company leads to a redistribution of value added in favour of shareholders notably to the disadvantage of employees (Deakin & Slinger 1997, de Jong 1997). A coalition between workers and minority shareholders favouring increasing external market control over the company appears hence paradoxical.

Cioffi and Höpner (2006: 477-478) explain centre-left support for pro-shareholder reforms by different factors linked to the position of labour within the firm: firstly, increasing transparency and management accountability implies increasing power for the supervisory board (or for non-executive directors in one-tire board systems), which is desirable for employees in systems where supervisory board codetermination exists. Secondly, and related to the first point, like shareholders, labour has an interest in limiting agency costs stemming from value-destroying strategies such as 'empire building'. The most prominent argument, however, is that, thirdly, employees become themselves increasingly shareholders both directly through private savings and indirectly through their pension fund money, which is increasingly invested in shares (see for this argument also Gourevitch and Shinn 2005). Their preferences blur hence increasingly with those of shareholders. These factors led centre-left parties to ally with new financial institutions against their traditional opponents, i.e. centre-right parties and their constituency, managers.

These micro-level factors would lead us to predict the emergence of centre-left support for corporate governance reforms in the three countries analyzed here as well. After all, two of the three countries (Sweden and the Netherlands) know some form of co-determination, employees have an interest in limiting managerial agency costs in all three countries, and in all three do employees have increasing parts of their savings invested in shares, either directly as private household savings or indirectly through their pension funds.

Yet, beyond these micro-level determinants of labour preferences, Cioffi and Höpner (2006: 487-488) also mention a more general factor, which explains in their cases why centre-left parties too supported shareholder-orientated reforms. This factor is linked to the relations between the economic and the political sphere and to political strategy:

> '[...] the established post-war […] corporate governance regimes were largely [...] the creation of the right and they were designed to benefit conservative parties, politicians, and their supporters. This led to close and mutually reinforcing business-party relationships between managerial and party elites that persisted over decades and became extremely valuable politically and financially for managers and politicians alike. [Therefore,] Corporate governance reform [...] provided the centre-left with a way to attack the opaque and

> strategically important relationships between conservative politicians and corporate managers, while appealing to the resentment of their left-wing constituents towards these incestuous elites.'

This macro-level factor would lead us to different expectations for centre-left preferences in the struggle over corporate governance arrangements in at least two out of the three small, corporatist economies, which I propose to analyze here. In fact, given that at least in Sweden and the Netherlands, corporate governance regimes were not the creation of the right alone, but rather the result of cooperative relations between left and right, we would expect the left to be opposed to shareholder-orientated reforms of these arrangements for the same reasons that the centre-right opposes them in Cioffi and Höpner's (2006) cases.

The following sections retrace for each country case the recent debates about corporate governance reforms in order to determine whether these processes were characterized by a 'party paradox' or not. In the latter case, we could conclude that the micro-level 'push factors' for labour support of pro-shareholder reform, were cancelled out by the macro-level 'pull factors'.

**3. Method: Case Selection and Empirical Material**

This study compares the political decision-making processes on shareholder-orientated corporate governance reforms with the view of analyzing the impact of different factors on centre-left policy preferences. More precisely, in order to further Cioffi and Höpner's analysis of the determinants of the party paradox, this study analyzes the impact of the macro-level explanation (inclusion/exclusion of the left from the definition of corporate governance arrangements) on the outcome (centre-left support for pro-shareholder reforms). In order to do this, case studies on three small, corporatist, and 'consensual democracies' (Katzenstein, 1985; Lijphart, 1999), where employer-labour relations are per definition collaborative rather than conflicting, are completed. While Cioffi and Höpner (2006a, pp. 15-16) point to the robustness of their findings given that their country sample (France, Germany, Italy, and the US) allows them to control for different party- and political systems (two-party vs. multi-party; parliamentary vs. presidential), different varieties of capitalism (liberal vs. coordinated market economies) and to exclude majority-opposition dynamics as explanation for the party paradox, their case studies do not include any small, corporatist consensus democracy.

The choice of the three country cases – Switzerland, Sweden, and the Netherlands – is motivated by a 'most similar systems design' (MSSD) strategy (see Peters, 1998). Ideally, this type of research design allows one to compare cases, which are similar on all but one independent variable, so as to isolate the impact of this variable on the variation of the dependent variable. Obviously, this ideal MSSD is hardly achievable in the reality of social sciences (see for the Swiss case in particular Fontana, Afonso, & Papadopoulos, 2008). Yet, despite some important political differences (Switzerland is the only federalist country and the only non-EU member of the three), the three countries can be considered to be 'most similar' concerning several central features and notably concerning their economic structure (large number of large internationally-orientated MNCs) and the existence of neo-corporatist arrangements (see Katzenstein, 1985). Moreover, concerning the central variables of the 'party paradox' thesis, one of the three cases – Switzerland – is, despite the consensual nature of its politics, a case of 'left exclusion' (as are Cioffi and Höpner's cases), and has experienced centre-left pro-shareholder support. The two other cases, on the other hand, are 'left inclusion' cases and do not show any sign of a 'party paradox' during the reforms of their corporate governance system. The three cases vary hence concerning the central independent as well as the dependent variable. Conversely, all three micro-level independent variables (codetermination, shareholding by employees, reducing managerial agency costs) are present in two of the three countries and Switzerland only lacks codetermination[1]. It is therefore possible to isolate the impact of the macro-level variable on the dependent variable.

Furthermore, the fact that Sweden and the Netherlands are both negative cases for the 'party paradox', but are different concerning centre-left political power (Sweden being the paradigmatic case of social democratic power, and the Netherlands a case of moderate to low social democratic power), permits to control for the alternative explanation that not the role of labour in the establishment of corporate governance systems, but simply its strength explains support for pro-shareholder reform or absence thereof.

In order to test the accuracy of the 'party paradox' hypothesis in the three cases, the technique of 'process tracing' is used. This technique consists of retracing a given process based on an in-depth study of various sources to create 'causal chains' between the dependent variable and the explanatory factors (see George & Bennett, 2005). The tracing of the political process will allow me to establish the centre-left preferences in the three cases and to control for the influence of other potential explanations such as the presence or absence of codetermination and the political strength of the centre-left.

In order to determine the preferences of the centre-left and centre-right parties in each case, comparisons are made across the political decision-making processes that led to the corporate governance reforms of the 1990s and early 2000s. These comparisons are based on the analysis of official documents and 'grey literature' relative to the reform processes, such as correspondence, unpublished reports, notes, and the minutes of meetings of public authorities and private organisations. Newspaper articles and secondary literature complete the information where relevant. These materials have been collected from web pages of public authorities and private organisations in the three countries (such as government, parliament, trade unions, employers association, stock market authorities, and political parties) and – for Switzerland and Sweden – in different archives (Swiss Federal Archives in Bern, Archives of the Swiss Parliament, Swedish Riksarchiv, Marieberg, and the Swedish Royal Library).

## 4. Case Studies: Corporate Governance Reforms in Switzerland, Sweden, and the Netherlands

The following sections retrace for each country case the recent debates about corporate governance reforms in order to determine whether minority shareholder protection (MSP), which is an indicator of increased shareholder-orientation of national corporate governance systems, has perceptibly increased over the past decades and whether these processes were characterized by a 'party paradox'.

### 4.1 Switzerland

For most of the 20th century, the Swiss corporate governance regime was clearly orientated towards the interests of corporate insiders: the legal framework was very sparse, managers were largely isolated from market forces through a variety of instruments of insider control, and external shareholders were badly protected. The control of insiders over the companies rested on the one hand on an extensive financial autonomy of the management due to the absence of disclosure requirements and the possibility to legally create hidden reserves; and on the other hand on complex capital structures and the existence of a system of restricted transferability of shares called *Vinkulierung*. The latter instrument allowed the management to refuse buyers of registered shares the inscription in the stock ledger and to deny them thus the exercise of their voting rights. The charter could provide that the company can refuse a buyer of registered shares without even mentioning a reason (art. 686 al.2 of the Swiss Code of Obligations of 1936; henceforth aCO). These instruments very largely isolated Swiss companies from (financial) market pressures and ultimately led to the famous 'fortress of the Alps' as which the Swiss CG system was often labelled by foreign observers (David et al. forthcoming). However, during the 1990s – starting with the Stock Corporation Law reform of 1991 – very significant reforms have taken place, which increased the level of legal minority shareholder protection (MSP) considerably.

The reforms of the 1990s were the result of a decades-long political process. In fact, the reform of the Stock Corporation Law of 1936, which was the main source for corporate governance rules in a very sparse legal framework, was already kicked-off in 1965. The reform aimed at improving the protection of minority shareholders notably by weakening the traditional instruments of insider control (Schnyder 2008). This reform goal was supported during the first decade of the reform mainly by civil servants from the Department of Justice. From the mid-1970s onwards, however, the social democrats and the trade unions started to support the reform goal as well. The emergence of centre-left support for pro-shareholder reform is explained by the fact that the main political objective of the Swiss labour movement during the post-war years, the introduction of a German-style co-determination system, was dwarfed by the rejection in a popular vote of the lefts co-determination initiative in 1976. In the absence of any possibility to influence corporate policies from within, the centre-left – that is, the Social Democratic Party (SPS) and soon also the Greens – supported the shareholder-orientated reform goal and increasing outside control over firms as an alternative means of employee influence (Schnyder 2008a). During the 1980s, when the reform proposal that had been elaborated in two consecutive expert committees was finally debated in the parliament, the centre-left support for pro-shareholder reform went very far. Some socialist MPs even explicitly supported hostile takeovers and the emergence of a market for corporate control, considering that '[...] some fresh wind does not do any harm to the boards of directors and the executive floors […]' of Swiss companies (intervention of SPS MP Carl Miville in the Council of States (CoS); Official Bulletin (OB) CoS 1988: 485, my translation).

From the early 1980s onwards, the Swiss case was hence characterized by the 'party paradox', which Cioffi and Höpner (2006) observe in the countries of their sample. However, the centre-left parties' position in Switzerland is weak. In the Swiss federal parliament, centre-left parties never controlled more than 30% of the seats in the lower chamber of parliament (the National Council) (see Armingeon et al. 2005) and considerably less in the upper chamber, the Council of States (CoS). Given these power relations and that all major centre-right parties (the Free Democrats, the Christian-Democrats and the Swiss People's Party) were during the early 1980s strongly opposed to the objective of weakening insider control, the National Council (NC), the lower chamber of parliament, which debated the reform from 1983 to 1985, reoriented the moderately pro-shareholder governmental reform proposal from 1982 towards the interests of corporate insiders. By the mid 1980s, the new proposal was according to several observers even more favourable to insiders than the law of 1936 (see e.g. SPS MP François Borel BO NC 1985: 1667).

However, during the late 1980s a very remarkable change set in: The CoS – where the left (including the Alliance of Independents) held during this period only 6 out of 46 seats – reintroduced several reform-postulates of the governmental proposal and re-orientated the law in favour of minority shareholders. The chairman of the preparatory committee of the Council of States – the Christian Democrat Carlo Schmid – explicitly stated that the upper chamber '[…] wanted to lay the stress more on the protection of the shareholder than the National Council […]' (OB CoS 1988: 455, my translation). Given that the same centre-right parties dominated the Council of States and the National Council, this remarkable change can only be explained by a change in the centre-right parties' preferences.

Due to this turnabout, the new stock corporation law that was finally adopted in 1991 protected minority shareholders much better than the law of 1936 (Kunz 2001: 246). Thus, it limits considerably the use of *Vinkulierung* in the case of listed shares and introduced new shareholder rights in order to control management. This trend towards increasing shareholder orientation continued during the 1990s notably with the adoption of the first Stock Exchange and Securities Trading Act (SESTA) at the federal level in 1995, which introduced a mandatory bid rule and constitutes the legal basis for the listing requirements of the newly formed Swiss Stock Exchange SWX. The new listing requirements introduced far-reaching changes, as for instance the 'true and fair' view principle in accounting, which would have been unthinkable only ten years previous (Hirsch 1995: 230).

In short, in Switzerland, the left supported pro-shareholder reform due to its weak position within the firm. However, the ultimate explanatory factor for reforms was an increasing support of centre-right MPs for shareholder-orientated reforms, which led to a broad cross-class pro-reform coalition including both centre-left and centre-right parties. As I will show in the next section, the patterns of change were very different in the Swedish case.

### 4.2 Sweden

Like the Swiss system, the Swedish system of CG was during most of the 20th century clearly insider-orientated and minority shareholder interests were subordinated to other interests. A major difference between Switzerland and Sweden, however, concerns the position of labour within the firm and more precisely the existence in Sweden of mechanisms of board-level co-determination. In fact, since 1977, Swedish employees have the right to appoint – depending on the size of the company – two or three representatives to the one-tire board of directors.

Insider-control in Sweden was mainly based on the instruments of voting right distortions and stock pyramids, which had their legal source in the stock corporation law (*Aktiebolagslag*; ABL) and allowed a very limited number of owner families and other traditional shareholders to control 'their' companies. Due to these instruments – and to a conscious governmental tax policy favouring large firms owned by a limited number of 'capitalists' – Sweden had probably one of the most concentrated control structures world-wide and the most powerful blockholders (see e.g. Högfeldt 2005, Henrekson & Jakobsson 2001).

The most recent reform of the ABL was kicked off by the SAP government of PM Ingvar Carlsson who established in 1990 an *Aktiebolagskommitté* (Stock Corporation Committee) mainly in order to adapt the ABL of 1975 to EC law in view of Sweden's accession to the EU in 1995. A second aspect of the reform – however – was explicitly to improve the protection of minority shareholders (see governmental directive dir. 1990:46). The reform led quickly to different changes in the Swedish ABL, which adapted Swedish law to the EC company law directives and increased MSP somewhat. Most importantly, 'bound shares', through which foreigners could be excluded from Swedish companies, were abolished in 1993 as they were incompatible with the EU's anti-discrimination principle (see governmental reform proposal 1992/93:68).

However, beyond EU harmonisation, the debate about minority shareholder rights and about shareholder primacy went less far than in Switzerland. The Stock Corporation Committee did stress the fact that owner interests were at the centre of the reform. However, the idea of shareholder-orientation was interpreted in a completely different way than in most other European countries where Anglo-Saxon ideas of shareholder primacy gained increasing prominence during the 1990s. In accordance with the traditional Swedish conception of ownership (see Henrekson & Jakobsson 2001), shareholder orientation was interpreted as enhancing the means of large shareholders to actively influence and monitor the companies' activities. The Swedish legislator coined the term 'active ownership' for this specific Swedish variation on the Anglo-Saxon shareholder primacy theme. Thus, the AB Committee stressed the 'importance of an active ownership role' (SOU 1995:44, p.19; my translation) and that '[s]hareholders who take responsibility for the corporate and business development are […] an important element in a prosperous market economy' (see the official report on 'The Organisation of the Stock Corporation'; SOU 1995:44 p.154; my translation). Rather than leading to increasing MSP, this approach was the rationale for the rejection of different reform claims – mainly stemming from foreign investors and the lobby of small shareholders *Aktiesparernas Riksförbund* – to abolish voting right distortions and to introduce a mandatory bid rule. The Committee argued that voting right distortions would guarantee that even in large companies, blockholders could play an active role in corporate governance, which was in the interest of the Swedish economy as a whole. The introduction of a mandatory bid rule was rejected on the same grounds, as it would make it more difficult for large shareholders to acquire a strong position within a firm (see e.g. SOU 1997:22, p.40). This view was explicitly supported by the successive governments – both centre-right and social democratic – and the legislator during the 1990s. In fact, despite several changes in governmental power during the reform process, these changes did not give rise to any perceptible change in the direction of the reforms as the 'party paradox' thesis would have it.

Ultimately, the new ABL was adopted by the *Riksdag* – Sweden's unicameral parliament – in 2005 in an atmosphere of astonishing consensus. During the debates about the final version of the new law, MPs from both the centre-right Alliance for Sweden and the then governing SAP expressed the broad consensus that prevailed during the reform process (see notably intervention of Bertil Kjellberg (*moderaterna*) and Johan Löfstrand (SAP) in the debates in the Riksdag on June 13, 2005).[2]

As a result of this broad consensus that no fundamental change in the Swedish conception of ownership was desirable, the law brought only very limited increase in MSP (ECGS 2007). Most importantly none of the traditional instruments of insiders control were weakened: thus, voting right distortions and share pyramids were not touched by the reform, and different instruments for limiting the transferability of shares were even reinforced. Concerning the latter, the AB Committee even prised the reinforcement of certain 'reservations' to the transfer of shares as a major achievement of the reform (SOU 2001:1, p.26). This clearly contrasts with the Swiss case, where shareholder rights increased considerably and instruments of insider control were limited already during the early 1990s.

Sweden contradicts hence Cioffi and Höpner's (2006) analysis in two ways: firstly, party politics did not play a role in CG reform. In fact, since both centre-right and centre-left parties were against minority shareholder-orientated reforms, it did not matter for the direction of the reform who actually governed. Both SAP- and bourgeois-dominated governments largely aimed at maintaining the traditional system in place although some concessions had to be made notably due to EU membership. Secondly, the Swedish social democrats and trade unions did not support increasing outsider control over firms in order to reduce the power of insiders (mangers and blockholders). As an example, when a draft of the EU takeover directive, which threatened to outlaw in certain cases the use of super-voting shares in cases of takeovers, was tabled in winter 2001/2002, the social democratic Persson government sided with the Swedish owner families in order to defend voting right distortions against EU legislation (Reiter 2003: 118). Sweden was hence clearly a case where an insider-outsider conflict, not a conflict over managerial control, prevailed.

**4.3 The Netherlands**

While the Swedish CG system can be seen as an extreme case of blockholder-control where a large number of control enhancing mechanisms (CEM) increase the influence of certain large shareholders, the Dutch system constitutes an extreme case of managerial control, which is not so much based on increasing the influence of large owners, but much more on instruments that completely separate control from ownership (see Moerland 2002). This has led to the emergence of a powerful economic elite, composed of managers and supervisory board members, which are linked through numerous interlocking directorates – both between supervisory and management boards – and were therefore often considered to form an impenetrable 'old boys network' (see Fennema & Heemskerk 2008). No notable blockholders existed in most Dutch companies as ownership is rather dispersed (La Porta et al. 1998) and the influence of owners was very limited. While a wide variety of CEM and of anti-takeover defences existed, the two main instruments of insider control were probably the so-called 'administration offices' (*administratiekantoor*) and the particular board structure established under the 'structure regime' (*structuurregeling*).

The 'administration office' is a foundation, which holds a company's shares or large parts of it and issues depositary certificates that carry the economic – but not to the associational – rights appending to the shares (Meinema 2002). Formally, the administration office exercises the voting rights in the interest of both the certificate holders and the company itself. However, as the boards of administration offices are '[…] typically populated by (former) directors of the firm whose shares the trust office keeps [...]' (Heemskerk 2007: 56), they were clearly an instrument of insider control.

The 'structure regime', on the other hand, was introduced in 1971 and aimed at balancing the major stakeholders' interests for the benefit of the company as a whole. Under the structure regime – which was compulsory for most large companies[3] – a two-tire board had to be established separating the management board (*raad van bestuur*) from the supervisory board (*raad van commissarissen*). The latter board occupied a very powerful position as it had prerogatives that are in most countries among the shareholder meeting's most fundamental powers. These include the election of the management board, the acceptance of the annual accounts and – probably most importantly – the election of the supervisory board members themselves in a system of 'controlled cooptation' (Moerland 2002). The shareholder meeting – the third compulsory organ under the structure regime – on the other hand had only very limited powers. In particular, even when acquiring a majority stake of a structure company's equity, an investor could not influence much the composition of the supervisory or the management board, which is why the structure regime constituted an efficient anti-takeover device.

The fourth organ of a 'structure company' was the works council (o*ndernemingsraad*), which had several strong control rights over the management of the firm. Thus, the works council had to be consulted concerning certain important questions and had the right to block managerial decisions during one month by appealing to the Amsterdam Court of Appeal (Heemskerk 2007: 53).

Significant pressure for corporate governance reform came in the Netherlands mainly from the stock exchange authorities (*Vereniging voor de Effectenhandel,* VEH), which started already in the mid-1980s to push listed companies to abolish takeover defences. These claims were strongly opposed, however, by the listed companies who established in 1988 an association of listed companies (the *Vereniging Effecten Uitgevende Ondernemingen*, VEUO) in order to oppose the VEH's claims (de Jong 2001: 164). The opposition between the listed companies and the stock exchange authorities led eventually to the establishment in 1995 of a provisional takeover panel that could suspend takeover defences if a shareholder held more than 70% of the equity for at least 12 months (de Jong 2001: 164). However, as no permanent solution could be found, a corporate governance committee – the Peters Committee – was established and published in 1997 a report containing forty recommendations for good practice in corporate governance. These recommendations were, however, largely ignored by listed companies (de Jong et al. 2005, Timmerman and Doorman 2002). Following up on the Peters Code, a new state-sponsored corporate governance committee – the Tabaksblat Committee – elaborated a new code, which entered into force on January 1, 2004. This code has been implemented to a larger extent than the Peter's Code (Akkermans et al. 2007), notably because second Balkenende government – uniting the major centre-right parties Christian-Democratic Appeal (CDA), the liberal People's Party for Democracy (VVD), and the progressive liberal D66 – decided that the new Code should obtain a legal basis by integrating a 'comply or explain' rule in the reform of the 'structure regime'.

This latter reform had been initiated in 2000 by Prime Minister Wim Kok's 'purple government'[4] that sought advice from the tripartite Social Economic Council (*Sociaal-Economische Raad*, SER) on reforms to the 'structure regime'. This led the SER to publish in 2001 a very influential report (SER 2001), which proposed to increase – moderately – the influence of both shareholders and employees on the firms (Timmerman & Doorman 2002).

The ensuing reform, which was adopted by the Second Chamber of the Dutch parliament in September 2003 and by the First Chamber in July 2004, increased the protection of shareholder rights considerably. Thus, for 'structure companies', the cooptation procedure has been abolished and the members of the supervisory board are now elected by the AGM on proposal by the supervisory board. The annual accounts as well as the executive compensation policy are now approved by the AGM. Moreover, certificate holders can now demand the administration office that the votes linked to the shares for which they hold certificates be cast according to their instructions. Important decisions – such as the conclusion of joint ventures – have to be approve by the AGM as well (Groenewald 2005).

However, despite a certain increase in MSP, the Dutch reform of 2004 does not constitute a break with the traditionally very pronounced stakeholder approach and was not as clearly orientated towards shareholder interests as the reforms in Switzerland during the 1990s. The resilience of the stakeholder approach is expressed in the fact that the reform of the structure regime in the Netherlands increased MSP mainly at the expense of the supervisory board and of the management board, while employees and their representatives have rather gained in influence alongside shareholders. Thus, the works councils have obtained a quasi-binding right to propose up to one third of the supervisory board members.[5]

The centre-left's support for the largely *pro-shareholder* reform can therefore be explained by the fact that the existing system was not fundamentally put in question and labour even obtained side-payments in the form of increasing works council influence on board elections. Yet, given that the reform of 2004 took place under the CdA-led second Balkenende government, changes were possible only with centre-right support. The reason for the increasing reform will among centre-right parties, lies in the particular context of the early 21st century. In fact, contrary to Switzerland, where the corporate governance reforms took place during a period of increasing admiration for the US' economic dynamism (cf. the debate about the 'New Economy'), debates in the Netherlands were very much marked by the general suspicion against the corporate elite in the 'post-Dot-com Bubble' and 'post-Enron' era. The accounting scandal at Dutch multinational Royal Ahold N.V. and at Royal Dutch/Shell, which became public in February 2002 and in January 2004 respectively, led to a widely-shared view that the Dutch system too lacked important ‘checks and balances’. During the debates in the Parliament members of parties from the right and from the left cited Ahold to show the need to increase the control over the supervisory and management boards. Thus, when the lower house of parliament voted on September 9, 2003 on the new law, only the – at the time small – left-wing Socialist Party (SP) rejected the reform proposal. The major parties agreed hence on the need to limit the power of the ‘old boys’ and to introduce appropriate ‘checks and balances’.

Yet, neither centre-left nor centre-right saw the solution to this problem in an unconditional increase in shareholder power. The governing CdA rejected the abolishing of anti-takeover devices and considered hostile takeovers not as a control mechanism, but as a danger for the economy (see explicitly Rob van de Beete (CdA), minutes of the first Chamber of parliament EK 38 38-2071). The oppositional social-democratic *Partij van de Arbeid* (PdvA) explicitly supported this goal. In the First Chamber of parliament MP Ing Yoe Tan (PvdA) backed the second Balkenende government’s idea to maintain in principle the two-tire board system and the existing of anti-takeover devices, underscoring explicitly the limits of a shareholder-orientated Anglo-Saxon model (Session of July 6, 2004; EK 38 38-2067). Takeover devices are indeed fiercely and largely successfully defended by the Dutch managerial elite with support of both the centre-right CdA and – less enthusiastically and more opportunistically – the PvdA (Culpepper forthcoming, chapter 4).

Rather than from market forces and shareholders, the necessary increase in control over corporate insiders should therefore – like in the traditional system – come from a balance between different organs of the stock corporation representing different stakeholder groups. Both the governing centre-right and the oppositional PvdA, agreed that the system needed a certain re-balancing of powers in favour of the AGM, but – as a counter power – the position of the works councils should be strengthened as well.

This consensus explains why such a central instrument of insider control as the cooptation procedure, could be abolished without the existence a ‘party paradox’ and without disrupting the traditional ‘corporatist coalition’.[6] Like in Sweden, however, no major political force – except for the liberal VVD who asked for the abolishing of the structure regime (see intervention Ankie Broekers-Knol, EK 38 38-2069) – supported further liberalisation steps – such as abolishing anti-takeover measures –, as they were considered to give excessive powers to shareholders.

## 5. Analysis: What Explains the Party Paradox?

The three country studies show patterns of corporate governance reform, which are substantially different from the cases that Cioffi and Höpner (2006) have analyzed. Switzerland experienced early on a ‘party paradox’ similar to Cioffi and Höpner’s (2006) cases. However, the factor which ultimately made legal change possible was substantial centre-right support for pro-shareholder reform. This finding does not fit in with their explanatory framework as both managerial elite and centre-right parties would be expected to oppose control-enhancing reforms.

Sweden and the Netherlands on the other hand are different from Switzerland and the cases analyzed by Cioffi and Höpner (2006) in that they do not show any sign of a ‘party paradox’. Rather, they seem to be a case of surprisingly stable ‘corporatist’ coalitions, which defended largely the central elements of the traditional insider-orientated arrangements against external pressures.

The question becomes hence, why do certain countries have a party paradox while others do not? And why does Switzerland seem to be one of the only countries where important parts of centre-right parties supported pro-shareholder reforms?

### 5.1 Centre-Left Preferences

Concerning the first question, the *explanandum* is the absence of centre-left support for pro-shareholder reform in Sweden and the Netherlands. Given that all micro-level explanatory factors for the ‘party paradox’ put forward by Cioffi and Höpner (2006) were present in Sweden and the Netherlands as well (employers are increasingly shareholders (see Gourevitch & Shinn 2005 for figures), they are interested in reducing managerial agency costs, and they would gain from increasing board power over management as some form of codetermination exists), we need to look for alternative determinants of centre-left and labour preferences. The reason why the Swedish and Dutch left did not support such reforms lies in another crucial determinant of centre-left parties’ preferences, whose importance Cioffi and Höpner (2006) underestimate, i.e. the type of relations that exist between employers and employees organisations and the role that labour played in the emergence of the corporate governance regimes in these countries. Cioffi and Höpner’s (2006: 487) above-mentioned observation that corporate governance regimes were established by the right and benefited mainly conservative parties, can be extended to the Swedish and Dutch labour movements: the political economic institutions of the post-war era in Sweden and the Netherlands – but not in Switzerland – were created in cooperation between labour and employers rather than under the exclusion of the left. Therefore, it comes as no surprise that the left did not favour the dismantling of these institutions.

In Sweden, the SAP governed without interruption from 1936 to 1976 and left-wing parties (including SAP, the Greens, and communists) never obtained less then 60% of the seats in parliament during the post-war period (Armingeon et al. 2005). This political dominance of the left has led to a situation where corporate governance structures emerged largely in the shadow of the socialist state. These arrangements were therefore clearly favourable to employees, or at least emerged with the consent of the SAP and trade unions. In fact, while the socialists agreed in a 'historical compromise' (Korpi 1982) to tolerate private property and leave the management of the firms largely to the 'capitalists' in exchange for a developed welfare state and active labour market policies, they had the power to impose legal rules favourable to employees whenever self-regulation was unsatisfactory (see Högfeldt 2005). This was increasingly the cases during the 1970, when relations between employees' and employers' organisation became more confrontational and public regulations of the economy and of industrial relations increased (Blyth 2002). As a result, the SAP did not have the same incentives as social democratic parties in other countries to reform this system and explicitly excluded the question of corporate governance – and notably the question of voting right distortions – from its reform and liberalisation program of the late 1980s (Reiter 2003: 104).

In the Netherlands too, the position of labour in the post-war corporate governance system created incentives for them to stick to this system. Dutch workers obtained during the post-war period a powerful position in the company. In particular, the establishment of works councils with considerable powers made of labour a more influential stakeholder group than the dispersed shareholders, which creates incentives for managers to form coalitions with labour rather than with investors (see Poutsma & Braam 2005).

Furthermore, in Sweden and the Netherlands, the emergence of corporate governance structures that are favourable to employees was not so much the result of a confrontational process, but rather of a long-term cooperation between different stakeholders. In Switzerland, the only case analyzed here with a 'party paradox', on the other hand, the left was weak and its relations with the employers more confrontational or at least more uneven.

The history of co-determination in the three cases illustrates this fundamental difference. In Switzerland, the trade unions attempt to introduce a German-style codetermination system was an extremely conflict-laden process, which culminated in a very aggressive campaign in the run up to the popular vote on the introduction of such a system. During the campaign, employers associations accused the left to attempt a 'Bolshevisation' of the Swiss economy (David et al. forthcoming). Due to the limited support of the left among Swiss voters, the centre-right opposition to codetermination could not be overcome and no board-level co-determination system was introduced.

In Sweden as well as in the Netherlands, in contrast, codetermination can rather be interpreted as a reward for restraint in wage demands during the post-war boom years, which did not generate much opposition by employers (see for the Dutch case de Jong & Röell 2005; for the Swedish case Högfeldt 2005). This interpretation is confirmed by a look at the political power relations: in the Netherlands, left parties' political power was by no means sufficient to push-through the introduction of a codetermination system in the political arena against to opposition of the centre-right parties. Thus during the post-war years, only between 1973 and 1977 was a clearly centre-left dominated government in place (Armingeon et al. 2005). When the 'structure regime' was introduced in 1971, which conferred considerable powers to the works councils, the centre-right Biesheuvel government was in place.

In Sweden, codetermination arrangements were obviously mainly favoured by the umbrella organisation of trade unions (the *Landsorganisationen*, LO), but introduced in 1977 under the Fälldin Government, that is, the first centre-right government since 1936. Clearly, then, co-determination in the Netherlands and in Sweden was not primarily the result of political power relations, but of cooperative relations between labour and employers.

These particular relations between labour and employers in Sweden and the Netherlands, which could be qualified as 'corporatist', are therefore a crucial factor that explains why the centre-left in the two countries did not support pro-shareholder reform. This difference holds not only in comparison with Switzerland, but also with the countries analyzed by Cioffi and Höpner (2006). In fact, even in Germany, which has a system of strong codetermination, this system was the result not of cooperation but of very contentious process and codetermination ultimately served to appease a strong and combative labour movement. Thus the 'Montan codetermination' was introduced in the metal industry in 1951 following the threat of strikes by metalworkers unions and pressure by the Allied occupation powers, and the consolidation of codetermination in 1972 under the social-democratic Brandt government was a highly contested process (Jackson 2005: 243).

### 5.2 Centre-Right Preferences

The question remains why Switzerland appears to be the only country where important parts of the centre-right parties favoured pro-shareholder reforms. I show in this section, in a rather exploratory fashion, that the fundamental reason for this was an increasing convergence of interests between important parts of the Swiss managerial elite and outside investors. This finding contradicts both agency theory – which is based on the assumption of a universal insider-outsider conflict – and Cioffi and Höpner's (2006) findings that stress the persistence of a conflict over managerial control. This convergence of interests can be mainly explained by important changes in Swiss companies' practices starting in the mid 1980s.

The first companies to change their practices were the major Swiss banks, which underwent a strategic reorientation of consequence starting in the early 1980s. Due to increasing domestic competition for private household savings with insurance companies, which started to offer attractive life insurance products, and due to the liberalisation of international financial markets, Swiss banks' profit margins came under pressure. They started hence to reorient their strategies towards more profitable activities such as asset management and investment banking (Ravara 1989, Schaub 1992). Due to this reorientation, functioning capital markets became increasingly important for Swiss banks and they started early on to put pressure on the legislator to reform the financial and corporate governance systems (Schnyder 2008). The banking sector's increasing focus on well-functioning financial markets directly affected the traditional corporate governance system. This concerned first and foremost the procedure of *Vinkulierung*, which clearly hampered the development of financial markets as it reduced liquidity. The banks' support for this central pillar of the traditional Swiss system had been essential. In fact, since 1961, banks had formally agreed in a gentlemen's agreement with non-financial companies to refuse selling registered stock to investors who did not fulfil a company's criteria for registration in the stock ledger. During the late 1980s, the Swiss Bankers Association was increasingly critical towards this practice and started to ignore the GA, urging at the same time companies to liberalize their practices of *Vinkulierung* (Schnyder 2008).

At first, this change in banks' preferences created a situation of considerable tensions between banks and non financial companies, which was labelled by one MP as a 'combat of the titans' (Minutes of the preparatory committee of the CoS 1988: 483). Soon, however, the largest listed companies followed a similar change in preferences like the banking sector. Since the end of the 1980s, due to increasing liberalisation of product and financial markets but also due to the emergence in Switzerland of a hostile takeover threat by domestic ‘corporate raiders’, even non financial companies adopted increasingly investor-friendly corporate governance practices.

These changes included the simplification of complex capital structures and the application of international accounting standards. Thus, while in 1990 only 14.8% of all listed companies had a capital structure with a single share category and hence no differential voting rights, by 2001 70.7% of the listed companies in Switzerland had introduced the ‘unitary share’ (*Einheitsaktie*), which guaranteed that all shareholders were treated equally (Kunz 2002: 30). Furthermore, a clear majority (61.3%) of the companies that had introduced – by November 2000 – the unitary share abolished at the same time the possibility of *Vinkulierung* (Burkhalter 2001). These changes allowed the largest Swiss companies to increase their attractiveness for investors and thus reduce their capital costs, but also to obtain a powerful takeover currency to finance their international expansion.

In parallel, the Swiss managerial elite underwent a significant change in their sociological profile: managers with a background in finance and holding US-style MBA degrees increasingly replaced the traditional lawyer-manager or engineer-manger (David et al. 2008, Davoine 2005). In addition, Höpner (2003) has argued for the German case, that managers became increasingly supportive of value-based management (VBM) methods because such methods implied a very significant increase in executive compensation due to stock option plans. The spread of stock option plans in Switzerland since the early 1990s makes a similar effect in Switzerland at least plausible. Both factors, contributed to an increasing popularity of the shareholder value idea and of the VBM approach and furthered, thus, the convergence of interests between managers and outside investors. This can be illustrated by the contributions in a publication by the influential Neue Zürcher Zeitung – close to the centre-right Free Democrats – entitled ‘*Shareholder Value*’ in which several managers of large Swiss companies explicitly defend the new shareholder primacy approach against the traditional ‘multi-referentiality’ of the company (NZZ 1996).

These changes in corporate practices and in the managerial elite’s preferences explains the above-mentioned increasing centre-right MPs support for shareholder-orientated reform, which in turn explains why increases in MSP became possible during the early 1990s despite the weakness of the social democrats.

Yet, a similar convergence of interests has been observed in other countries too (see Moore & Rebérioux 2007 for the US and UK cases; Höpner 2003 for Germany), but did not lead – at least in the US and Germany – to any comparable centre-right support for such reforms. One reason for this can be seen in the fact that, in Switzerland, as a small country with a comparatively large number of MNCs, the business elite and centre-right parties are disproportionately dominated by the large MNCs, which were also the companies that were the first to embrace the new shareholder-orientated approach to management. However, this would lead us to expect a similar evolution in Sweden and the Netherlands, as both are small countries with a large number of MNCs. Two factors explain why this did not happen: firstly, the means of insider-control over companies in Sweden and the Netherlands were very different from Switzerland, and secondly the position of the financial sector in the economy was different too.

The Swedish model was different from the Swiss model, notably concerning the identity of insiders. In fact, blockholding owner families played a major role in the Swiss and the Swedish corporate governance system. Yet, the typical Swiss owner-family did not hold major stakes in more than one company, but controlled often just the company that a member of the family had founded and in which they were – importantly – actively involved in the management (La Porta et al. 1998, 1999). Therefore, Switzerland can be characterized as an ‘entrepreneurial blockholder model’. Accordingly, the owner-families’ stakes were often large enough to permit control even without many CEM. La Porta et al.’s (1998) concentration index of the three largest shareholders in the 10 largest domestic non-financial, non state-owned companies in 1995 shows in fact an average concentration of 41% for Switzerland.

The Swedish economy, on the other hand, is organized into different ‘spheres’ of influence in which a very limited number of individuals and families played a major role (Collin 1998, Carlsson 2007). CEM such as Stock pyramids and voting right distortions played a major role in these spheres of influence as capital ownership was not particularly concentrated. The above-mentioned LLSV concentration index for Sweden is 28%, which is well below the Swiss average. The control of voting rights, however, was probably more concentrated in Sweden than in any other advanced economy. Thus, the Wallenberg foundation which controlled at the end of 1998 – directly and indirectly – about 42% of total market capitalisation of the SSE, held only 1% in terms of capital (Henrekson and Jakobsson 2006: 27-28). The typical Swedish owner-family controls hence a larger number of firms with less capital. This situation made that CEM were more important to exercise control and that the traditional system was very vulnerable to liberalisation (Henrekson & Jakobsson 2006).

The importance of CEM for the traditional blockholders to maintain their control explains largely the strong opposition of the business elite towards change. There is indeed little evidence for changes at the level of Swedish companies' corporate governance practices during the 1990s. Thus, as late as 2006, a clear majority (64%) of listed companies in Sweden have issued dual class shares with voting right distortions, which compares to less then 30% of listed companies in Switzerland (see for Sweden Henrekson & Jakobsson 2006: 24, table 9; for Switzerland Kunz 2002: 31). Also, almost 50% of the 120 Swedish companies, which went public during the period 1998 to 2002, still issued shares with differential voting rights (Veckans Affärer, April 7, 2003).

In the Netherlands ownership was rather dispersed compared to Switzerland and anti-takeover devices and CEM were – like in Sweden – particularly important for the insiders to keep control. Thus, de Jong and Röell (2005: 482) find for 1993 that only 10.4% of the 143 Dutch firms in their sample can be qualified as family-controlled firms. It comes hence as no surprise that Dutch insiders resisted the abolishing of insider control instrument vehemently. The establishment in 1989 of the VEUO in order to oppose the VEH's claims for abolishing anti-takeover rules (see above) is a very telling example, which contrasts with the largest Swiss companies that started to liberalize from 1988 onwards – without legal constraint – their capital structures and exposed themselves increasedly to a hostile takeover threat. As a result, like in Sweden, these instruments did not significantly decline in the Netherlands until very recently. A report by Deminor Rating shows that in 2005, 86% of the twenty-one Dutch companies in their sample still used one or several of these instruments of minority control. Another study finds that as late as 2005, Dutch companies were considerably more protectionist than Swiss and even than Swedish companies concerning the capital structure: 36% of the 47 largest listed companies still had more than one share class (Aggarwal et al 2007: 34, table 7). This compares to 2% (of a total of 58 companies analyzed) for Switzerland and 30% (43 companies analyzed) for Sweden. Furthermore, whereas hostile takeovers had become a relatively common phenomenon in Switzerland and Sweden by the end of the 1990s (Schnyder 2008, Henrekson & Jakobsson 2006), only one single hostile takeover attempt on Dutch firms had succeeded between 1960s and the late 1990s (de Jong 2001: 160). Again the vulnerability of Dutch companies to liberalisation may explain – like in the Swedish case – largely why the managerial elite and the centre-right parties did not support pro-shareholder reforms.

A second central factor in order to understand the coalitions in the three countries concerns the role of the financial sector. In Switzerland, the financial sector is one of the most important branches of the economy. To give but one indicator of the size of the banking sector, the proportion of assets under management over GDP was 900% in Switzerland in 2005 (see SwissBanking 2006: 15). This compares to 400% for the Netherlands and 120% for Sweden in 2001 (Prast & van Lelyveld 2005: 323). Therefore, financial actors – and in particular the large banks and their peak organisation, the SBA – represented a very important part of the Swiss economy and constitute a considerable political force in their own right, which was not the case to the same extent in either Sweden or the Netherlands.

The Swedish economy is dominated by two main business groups – the Wallenberg sphere and the Handelsbank group – in each of which a bank occupies a central place (see notably Collin 1998). Yet, the banking sector did not become an important pro-reform actor like in Switzerland. This is explained by the fact that, despite their central position in the economy, the major Swedish banks were closely controlled by a particular type of owners. Thus, the Skandinaviska Enskilda Banken (SEB) is controlled by the Wallenberg family and the Handelsbanken by individuals close to its management. This distinguishes them from Swiss banks. In the Swiss case all three major banks (UBS, CS, and SBS) were for most of their recent history widely-held companies without any shareholder controlling significant stakes over longer periods. This has important implications for the banking sector's role in corporate governance reform: Swedish banks are closely interwoven in spheres of influence in which financial interests did not prime over industrial interests. Also, their strategic choices were during long time heavily limited by public regulations (Englund 1999). Rather than being independent economic actors, which also constitute a powerful political actor, Swedish banks were largely a means for their owners to control non financial companies through pyramidal control structures. These owners valued industrial interests at least as much as financial interests and opposed the abolishing of traditional instruments of insider control, such as voting right distortions, on which their control was based. Therefore, the banking sector was not the vector for the financialisation of the economy that it was in Switzerland.

While the banking sector in the Netherlands, is much larger than in Sweden and hence important for the Dutch economy as a whole (Prast & van Lelyveld 2005), the role of banks was very different from Swiss banks. Historically, Dutch banks did not engage in long-term lending to industrial companies and attempts to establish a universal bank system akin to the German model failed (de Jong & Röell 2005). Dutch banks therefore never acquired an as central position in the economy as the major Swiss universal banks and did not develop as close relations with non-financial companies. Only after 1990, when legal restrictions were removed, did Dutch banks expand their activities into new sectors such as the insurance business (Heemskerk & Schnyder 2008). This led to the emergence of the large financial conglomerates ABN AMRO, ING and Fortis and to a considerable increase in the size of the Dutch banking sector. Thus, the assets under management by Dutch banks over GDP increased from less than 300% in 1997 to over 400% in 2001 (Prast & van Lelyveld 2005: 322). Yet, contrary to Swiss banks, Dutch banks' strategies moved to a lesser extent away from the lending business. On the contrary, Dutch banks started to become active in the long term lending business only relatively recently – i.e. since the 1960s – and they did not abandon this sector during the 1980s. Thus, in 1990, 71.6% of Dutch banks' income was interest income, while the same figure was only 51.2% for Swiss banks, indicating the greater importance that financial markets had for the latter. Still in 2000, the majority of Dutch banks' income was interest income (53%), while in Switzerland the same figure was down to 37.3% (Heemskerk & Schnyder 2008: 45).

The less central position of Dutch banks in the economy and the fact that their income dependent to a lesser degree on financial market activities may explain why actors close to the banking sector did not play a similar pro-shareholder reform role as the Swiss banking sector.

In short, the way in which 'insiders' exercise corporate control and the presence of strong, independent banks as a central pro-reform actor explain why Switzerland was the only one of the three countries where the pro-shareholder coalition was to a considerable extent support by the centre-right.

## 6. Conclusion

To sum up, the three cases, which I analysed in this paper, show diverse patterns of corporate governance reform as well concerning their outcome as concerning the political coalitions that formed around the issues of shareholder orientation. Switzerland experienced considerable increases in the legal level of minority shareholder protection already at the beginning of the 1990s. These reforms was supported by the centre-left parties for a long time, but became possible only when parts of the centre-right joined the pro-reform coalition. This happened during the late 1980s and the early 1990s when banks and the largest companies changed towards more investor-friendly corporate governance practices.

In Sweden and the Netherlands, on the other hand, no comparable increase in legal MSP took place. In fact, legal reforms remained very marginal up until the early 2000s and even then did the changes not fundamentally weaken the traditional insider-orientated corporate governance system. At the level of politics, both cases are characterized by a stable coalition between centre-left and centre-right parties who defended the traditional system against too far-reaching changes.

Therefore, in none of the three cases did party politics play the role that we would expect based on Cioffi and Höpner's (2006) study. In other words, the 'party paradox' is by no means a universal phenomenon, but emerges only in certain circumstances. My study allows me to single out factors, which explain the presence or absence of a party paradox in the cases analyzed here and to complete, thus, the emergent theory that derives from Cioffi and Höpner's (2006) analysis. More precisely, my analysis shows that neither the existence of co-determination arrangements, nor a general interest of employees to reduce managerial agency costs, nor the part of employees' pension savings that is invested in corporate stock are sufficient explanations for the left's pro-shareholder preferences. Rather, the emergence of an investor-employee coalition depends on the nature of relations that exist between labour and employers and on the historical role that labour played in the creation of the national corporate governance system.

Political theories of corporate governance attribute the political strength of labour an important explanatory power for corporate governance structures. Thus, Roe's (2003) analysis suggests a linear relationship where increasing social democratic power implies increasing 'insider characteristics' (blockholding, low levels of MSP) of the corporate governance regime. Conversely, Cioffi and Höpner's (2006) study suggests that social democratic power is – in the context of the late 20$^{th}$ century – associated with increasing shareholder-orientation. My study shows, in stead, a more complex relationship between labour strength and the characteristics of the corporate governance system. In fact, one implication of my study is that centre-left preferences may vary in function of labour strength. Thus, in countries where labour is relatively strong, we can expect corporate governance arrangements to be more favourable to employees than in countries where labour is weak. Therefore, we can expect labour to be opposed to pro-shareholder reforms. In countries where labour is relatively weak, we can expect that corporate governance regimes are contrary to their interests and the centre-left will therefore favour such reforms. Roe's (2003) and Cioffi and Höpner's (2006) explanations are hence not necessarily contradictory, but may describe two situations that may emerge in different contexts.

This also provides an alternative rationale for the correlation, which Roe (2003) finds between the strength of social democracies and 'insider characteristics'. Looking closely at the political process of corporate governance reforms suggests that the reason for this correlation may lie in the fact that in countries with a strong social democratic party the centre-left has no incentive to favour pro-shareholder reform. Therefore, in such countries outside investors may lack an essential political support for pro-shareholder reform, which in turn explains low levels of MSP and high levels of ownership concentration. In countries where social democrats are comparatively weak, on the other hand, they will favour reforms of existing corporate governance arrangements that are detrimental to their interests. Therefore, in such countries, an important political pro-reform force exists, which increases the likelihood that pro-shareholder reforms can be achieve in coalition with outside investors.

However, my study clearly shows that the preferences of centre-left parties cannot be explained by their political strength alone. Even in countries where labour is politically relatively weak, it still may oppose reforms when relations with employers are cooperative. This was the case in the Netherlands where the centre-left was politically weaker than for instance in Germany (see Armingeon et al. 2005). Yet, the Dutch labour movement entertained cooperative relations with employers, which allowed them to contribute to a larger extent to corporate governance arrangements than the German left. Therefore, the nature of the relations between employers and employees organisations is a more important determinant of centre-left preferences than their political strength.

Furthermore, the Swiss case shows that a shareholder-investor coalition may not be a sufficient condition for pro-shareholder reform in all cases and that there are different pathways towards shareholder orientation. In fact the centre-right is not invariably an obstructive force in the reform process of insider-orientated corporate governance regimes. Under certain circumstances, even the managerial elite in strongly insider-orientated corporate governance systems seems ready to support increasing shareholder-orientation. This appears to be the case notably in economies, which are dominated by a strong financial sector and by large multinational companies. Yet, the Swedish and Dutch cases also show that these factors alone do not account for the centre-right parties' preferences either. In fact, another central implication of my study is the importance of acknowledging the variety within the group of insider-orientated systems and of addressing the question of 'who are the insiders?' in order to understand corporate governance reforms in different insider-orientated systems (see for a similar point Culpepper 2007). Insider-orientated corporate governance systems can by no means be considered as a homogeneous group, which has profound consequences for the patterns of corporate governance reform. Thus, the Netherlands is an insider-orientated, but not a blockholder system, and even the two blockholder systems of Switzerland and Sweden are very different concerning the identity of the blockholders, their means of control, and hence their preferences, which explains different patterns of change. I have argued that the structure of the economy (strength of the financial sector) and the means of insider control (CEM or concentrated) ownership may be central factors explaining differences in centre-right preferences in the three cases analysed here. Further case studies of different countries' reform trajectories will be needed to in order to generalise these findings and to ultimately build – starting from mid-range theories – a more accurate theory of the politics of corporate governance.

## Notes

[1]This does not constitute a problem however, since Cioffi and Höpner's cases show that codetermination is neither a necessary nor a sufficient condition for the party paradox. Even the problem of 'conjunctural causation' (see Peters 1998), i.e. that codetermination causes center-left support for pro-shareholder reform in interaction with another variable, can be excluded as Switzerland is a positive case of center-left shareholder support.

[2] The minutes of the session of June 13, 2005 are available at:
http://www.riksdagen.se/Webbnav/index.aspx?nid=101&dok_id=GS09138&bet=2004/05:138

[3] A 'structure company' (*structuurvennootschap*) is defined as a company that satisfies during three consecutive years the following criteria: i) issued share capital of at least € 13m (€ 16m since October 2004); ii) has more than 100 employees, and iii) falls under the obligation of the Works Council Act to establish a works council (Meinema 2002: 158). A mixed regime could be adopted by multinational companies, which employed only a minority of the work force in the Netherlands. Also, smaller companies could opt into the system by including such a provision in the articles of incorporation.

[4] From 1994 to 2002 the Netherlands were governed by a coalition composed of the social-democratic PvdA (*Partij van de Arbeid),* the liberal VVD, and the progressive liberal D66. Due to the party colours of the social democrats (red) and the liberals (blue) this coalition was often called the 'purple coalition'.

[5] It should be noted however that some observers did fear an imbalanced increase in shareholder power at the expense of the works councils. This fear was related to the fact that while works councils obtained a right to appoint up to one-third of the supervisory board, but their right to object to the election of the rest of the members was abolished (Groenewald 2005).

[6] Culpepper (forthcoming) finds, however, that at least concerning the issue of anti-takeover defences, the Dutch case cannot be seen as a proper 'corporatist coalition', as the opposition to liberalisation was mainly due to successful managerial lobbying of the CdA, while the PdvA did not have any strong preferences concerning this issue and changed its attitude several times. Still, contrary to the 'party paradox' hypothesis, the social democrats were no active pro-reform force either.

## References


Ahlqvist, M. 2004. *Alternatives to the use of unequal voting rights - A propos the potential threat to their effectiveness as a takeover defense.* Linköping: University of Linköping.

Akkermans, D., van Ees, H., Hermes, N., Hooghiemstra, R., Van der Laan, G., Postma, T. & van Wittellstuijn. A. (2007). 'Corporate Governance in the Netherlands: an overview of the application of the Tabaksblat Code in 2004.' *Corporate Governance: An International Review,* 15(6): 1106-1118.

Armingeon, K., Leimgruber, P., Beyeler, M., & Menegale, S. (2005). *Comparative Political Dataset 1960-2003*. Bern: Institute of Political Science, University of Bern

Blyth, M. (2002). *Great Transformations. Economic Ideas and Institutional Change in the Twentieth Century.* Cambridge: Cambridge University Press.

Carlsson, R. H. (2007). 'Swedish Corporate Governance and Value Creation: Owners Still in the Driver's Seat.' *Corporate Governance: An International Review*, 15: 1038-55.

Cioffi, J.W., & Höpner M. (2006). 'The Political Paradox of Finance Capitalism: Interests, Preferences, and Centre-Left Party Politics in Corporate Governance Reform.' *Politics and Society*, 34:463-502

Cioffi, J.W., & Höpner M. (2006a). ‚Das parteipolitische Paradox des Finanzmarktkapitalismus. Aktionärsorientierte Reformen in Deutschland, Frankreich, Italien und den USA.' *Politische Vierteljahresschrift*, 47(3): 419-440.

Collin, S-O. (1998). 'Why are these Islands of Conscious Power Found in the Ocean of Ownership? Institutional and Governance Hypotheses Explaining the Existence of Business Groups in Sweden.' *Journal of Management Studies, 35*: 719-46.

Culpepper, P. (forthcoming). *Business Power in Contemporary Capitalism.* Book manuscript.

Culpepper, P. (2007). '*Eppure, non si muove*: Legal Change, Institutional Stability and Italian Corporate Governance.' *West European Politics*, 30: 784-802.

David, T., Ginalski, S., Rebmann, F., & Schnyder, G. (2008). 'The Swiss Business Elite between 1980-2000: Declining Cohesion, Changing Educational Profile and Growing Internationalization.' In Ch. Boyer, & F. Stattler (Eds.), *European Business Elites. Between a New Spirit of Capitalism and the Erosion of State Socialism*, Berlin

David, T., Mach, A., Lüpold, M., & Schnyder, G. forthcoming. *De la «forteresse des alpes» à la valeur actionnariale: histoire de la gouvernance d'entreprise suisse au 20e siècle.*

Davoine, E. (2005). 'Formation et parcours professionnel des dirigeants d'entreprise en Suisse.' *Revue Economique et Sociale*: 89-99

de Jong, A. (2001). 'The Netherlands.' In K Gugler (Ed.), *Corporate Governance and Economic Performance*, (pp. 156-68). Oxford: Oxford University Press.

de Jong, A, & Röell, A. (2005). ;Financing and Control in The Netherlands.; In R. Morck (Ed.), *A History of Corporate Governance around the World*, (pp. 467-506). Chicago: University of Chicago Press

de Jong, A., DeJong, D.V., Mertens, G., & Wasley, C. E. (2005). 'The Role of Self-Regulation in Corporate Governance: Evidence and Implications from The Netherlands.' *Journal of Corporate Finance*,11: 473-503.

de Jong, H. W. (1997). 'The Governance Structure and Performance of Large European Corporations.' *Journal of Management and Governance*, 1: 5-27.

Deakin, S., & Slinger, G. (1997). 'Hostile Takeovers, Corporate Law, and the Theory of the Firm.' *Journal of Law and Society*, 24:124-51

ECGS. (2007). *European Corporate Governance Review 2006*, London: European Corporate Governance Service Ltd.

Englund, P. (1999). 'The Swedish Banking Crisis: Roots and Consequences', *Oxford Review of Economic Policy*, 15: 80-97.

Fennema, M., & Heemskerk, E. (2008). *Nieuwe netwerken. De elite en de ondergang van de NV Nederland*. Amsterdam: Bert Bakker.

Fontana, M.-C., Afonso, A., & Papadopoulos, Y. (2008). 'Putting the Special Case in its Place: Switzerland and Small-N Comparison in Policy Research.' *Swiss Political Science Review*, 14: 521-550.

Gourevitch, P.A., & Shinn, J. (2005). *Political Power & Corporate Control. The New Global Politics of Corporate Governance*. Princeton: Princeton University Press.

George, A., & Bennett, A. (2005). *Case Studies and Theory Development in the Social Science*. Cambridge, MA: MIT Press.

Groenewald, E. (2005). 'Corporate Governance in the Netherlands: From the Verdam Report of 1964 to the Tabaksblat Code of 2003', *European Business Organization Law Review*, 6: 291-311.

Heemskerk, E.M. (2007). *Decline of the Corporate Community. Network Dynamics of the Dutch Business Elite*. Amsterdam: Amsterdam University Press.

Heemskerk, E.M., Schnyder, G. (2008). 'Small States, International Pressures, and Interlocking Directorates: The Cases of Switzerland and the Netherlands.' *European Management Review*, 5: 41-54.

Henrekson, M., & Jakobsson, U. (2006). *Den svenska modellen för företagsägande och företagskontroll vid skiljevägen.* The Research Institute of Industrial Economics Policy Paper. Stockholm: The Research Institute of Industrial Economics

Henrekson, M., & Jakobsson, U. (2001). 'Where Schumpeter was Nearly Right – the Swedish Model and Capitalism, Socialism and Democracy.' *Journal of Evolutionary Economics*, 11: 331-58

Hirsch, A. (1995). 'Le droit boursier et le droit des sociétés.' *Revue suisse du droit des affaires*, 5: 228-34.

Högfeldt, P. (2005). 'The History and Politics of Corporate Ownership in Sweden.' In R. Morck (ed.), *A History of Corporate Governance around the World*, (pp. 517-79). Chicago: University of Chicago Press.

Höpner, M. (2003). *Wer beherrscht die Unternehmen? Shareholder Value, Managerherrschaft und Mitbestimmung in Deutschland*. Frankfurt: Campus.

Jackson, G. (2005) 'Contested Boundaries: Ambiguity and Creativity in the Evolution of German Codetermination.' In W. Streeck, & K. Thelen (Eds.), *Beyond Continuity. Institutional Change in Advanced Political Economies*, (pp. 229-254). Oxford: Oxford University Press.

Jensen, M. C., & Meckling W.H. (1976). 'Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure.' *Journal of Financial Economics*, 3: 305-60.

Katzenstein, P. J. (1985), *Small States in World Markets: Industrial Policy in Europe*. Ithaca: Cornell University Press.

Korpi, W. (1982). ‘The Historical Compromise and its Dissolution.’ In B. Rydén, W. Bergström (Eds.), *Sweden: Choices for Economic and Social Policy in the 1980s*, (pp. 124-42). London: Georg Allen & Unwin.

La Porta, R., Lopez-de-Silanes, F., & Shleifer, A. (1999). ‘Corporate Ownership Around the World.’ *Journal of Finance*, 54: 471-517

La Porta, R., Lopez-de-Silanes, F., Shleifer, A., & Vishny, R.W. (1998). Law and Finance. *Journal of Politcal Economy*, 106:1113-55

Lijphart, A. (1999). *Patterns of Democracy: Government Forms and Performance in Thirty-Six Countries*. New Haven, CT: Yale University Press.

Moerland, P.W. (2002). ‘Complete Separation of Ownership and Control: The Structure-Regime and Other Defensive Mechanisms in the Netherlands.’ In J. A. McCahery, P. Moerland, T. Raaijmakers, & L. Renneboog (Eds.), *Corporate Governance Regimes. Convergence and Diversity*, (pp. 287-296). Oxford: Oxford University Press.

Meinema, M. (2002). ‘Mandatory and Non-Mandatory Rules in Dutch Corporate Law.’ *Electronic Journal of Comparative Law, 6.4*:157-70.

Moore, M. T., & Rebérioux, A. (2007). ‘The corporate governance of the firm as an entity.’ In Y. Biondi, A. Canziani, & T. Kirat (Eds.), *The Firm as an Entity. Implications for economics, accounting and the law,* (pp. 348-74). London, New York: Routledge.

NZZ (1996). *Shareholder Value.* Zürich: Verlag NZZ.

Pagano, M., & Volpin, P. (2005). ‘The Political Economy of Corporate Governance.’ *American Economic Review*, 95: 1005-30

Peters, B.G. (1998). *Comparative Politics: Theory and Method*. Basingstoke: Palgrave.

Poutsma, E., & Braam, G. (2005). ‘Corporate Governance and Labour Management in the Netherlands: Getting the Best of Both Worlds?’ In H. Gospel, & A. Pendleton (Eds.), *Corporate Governance and Labour Management. An International Comparison*, (pp. 148-72). Oxford: Oxford University Press.

Prast, H., & van Lelyveld, I. (2005). 'The Netherlands.' In D. Masciandaro (Ed.), *Handbook of Central Banking and Financial Authorities in Europe,* (pp. 311 – 354). London: Edward Elgar.

Ravara, C. (1999). *Allfinanz. Nicht neu, aber mit Zukunft*. Zürich: Credit Suisse Group.

Reiter, J. (2003). 'Financial Globalisation, Corporate Ownership, and the End of Swedish Corporatism?' *New Political Economy*, 8:103-25.

Roe, M. J. (2003). *Political Determinants of Corporate Governance: Political Context, Corporate Impact*. New York: Oxford University Press.

Schaub, V. (1992). *Konzernpolitik im Schweizer Bankbereich. Eine Darstellung der Determinanten und Ausgestaltungsmöglichkeiten unter Berücksichtigung ausgewählter Schweizer Bankkonzerne*. Bern: Haupt.

Schnyder, G. (2008). *Comparing Corporate Governance Reforms: Law, Politics and the Social Organisation of Business in the case of Switzerland, 1965-2005.* Unpublished doctoral dissertation, University of Lausanne, Lausanne.

Schnyder, G. (2008a). 'Does Social Democracy Matter? Corporate Governance Reforms in Switzerland and Sweden (1980 – 2005).' Centre for Business Research Working Paper No. 370, Cambridge: University of Cambridge.

Sociaal-Economische Raad. (2001). *Het functioneren en de toekomst van de structuurregeling*. Den Haag: SER.

SwissBanking. (2006). *The Swiss Banking Sector*. Basel: Swiss Bankers Association.

Timmerman, L., & Doorman, A. (2002, July). *Rights of minority shareholders in the Netherlands*. Paper presented at the XVI$^{th}$ World Congress of the International Academy of Comparative Law, Brisbane.