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Abstract

This paper analyzes the structural features of the so called "Deutschland AG" model of corporate governance, which characterized the institutional framework for corporate management and supervision in Germany until the mid-1990s. It examines how tightly woven networks of inter-firm relationships, particularly among large German banks and corporations, facilitated active monitoring and risk mitigation, distinguishing it from the Anglo-American approach, which focused primarily on limiting managerial opportunism. The historical roots of inter-firm linkages, the significant involvement of large banks, and the concentration of corporate power defined this model. Since the mid-1990s, however, these interdependencies have broken down, leading to a shift towards a more market-oriented financial capitalism. The consequences of this shift include diminished influence of traditional stakeholders, the commercialization of governance, shortened decision-making horizons, increased exposure to global risks, and an evolving concept of corporate social responsibility. Ultimately, the dissolution of the Deutschland AG corporate network exemplifies the transformative capacity of social structures in the context of global economic developments.

I. Introduction

The term corporate governance refers to the institutional framework for the management and supervision of companies. In Anglo-American understanding, regulations and mechanisms of corporate governance primarily aim to limit the scope and motives of employed managers for opportunistic behavior, thereby safeguarding the interests of a company's owners. In Germany, until the mid-1990s, control of the management of major public companies was exercised within a tight network of corporate relationships among financial firms and other major shareholders. Because of their comparatively large stakes, the owners of these large, interconnected companies had a significant interest in active control. However, their control ambitions concentrated not only on limiting potential opportunistic behavior of employed managers but also aimed at further reducing corporate risks. The network of interconnected companies helped ensure that corporate crises could be collectively managed, structural imbalances in entire economic sectors could be addressed through bank-driven restructuring, and unwelcome foreign takeovers could be effectively repelled. Moreover, the close network among the largest companies also limited competition among domestic rivals.[1] Due to the uniqueness of this interconnection structure, which facilitated the coordination of companies, the label "Deutschland AG" (Germany Inc.) has become established.

The structural conditions have fundamentally changed since then, even though the interlinkages of German public corporations occasionally remain the subject of academic analysis today.[2] This contribution will reflect on the various structural elements of Deutschland AG (Part 2) while also explaining the consequences that arise from the departure from the specific corporate governance model characterizing Deutschland AG (Part 3).

II. Structural Elements of Deutschland AG

Corporate interconnectedness has deep historical roots in Germany. Key milestones include the establishment of universal banks around 1870, the boom in the founding of industrial public companies, the stock law reform of 1884 (which led to the formation of supervisory committees), and the Federal Court ruling of 1897 (which recognized cartel agreements as legally binding). The term Deutschland AG typically refers to corporate governance structures in Germany after 1960. It pertains to a time when the formation of cartels was no longer deemed acceptable (Act Against Restraints of Competition 1957), yet conditions of regulated competition based on corporate interlinkages remained intact.[3] Notably, the term "Deutschland AG" became popular only as the disintegration of interlinkage structures was already becoming evident.[4]

Key structural elements of Deutschland AG were:

(1) *The closed component structure in the personal and capital network of corporations*: Until the mid-1990s, Germany was characterized by a high degree of integration of a large part of its major corporations into the network of personal and capital interlinkages, particularly the specific, internally closed structure of interlinking relationships. For instance, 60 percent of all major companies examined by Rolf Ziegler in 1976 (N = 325) were interconnected through personal ties within a cohesive component.[5]

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[1] For example, the former Chairman of the Board of Management of Bayer AG in the 1960s, Kurt Hansen, explicitly considered it "uneconomical" for German companies to compete with each other with the same product, see Abromeit, "Government" (1990), 63.

[2] Andres/Lehmann, „Board" (2011), Balsmeier/Buchwald/Peters, „Auswirkungen" (2009), Balsmeier/Peters, „Unternehmensverflechtung" (2009), Balsmeier/Dilger/Lingens, „Fluktuation" (2010), Buchwald, „Unternehmen" (2011), Entorf/Gattung/Möbert/Pahlke, „Aufsichtsratverflechtungen" (2008), Gaugler, „Verflechtungen" (2009), Milaković/Alfarano/Lux, „Core" (2011), Oehmichen, „Mehrfachmandate" (2011).

[3] Windolf/Beyer, „Kapitalismus" (1995).

[4] In the academic debate, the term Deutschland AG was first used as a title keyword by Adams, "Usurpation" (1994).

[5] Ziegler, "Netz" (1984), The integration of companies into a component means that they are at least indirectly connected to each other in the network. The term component originates from graph theory. A graph consisting of nodes (here: companies) and edges (here: interlocking directorates) is coherent if each node can be connected by a sequence of edges. If the graph is not coherent, it breaks down into several components, each of which is coherent in itself.

According to an analysis by Beyer in 1992, this figure rose to over 90 percent for the 616 largest German companies studied.[6] A similarly integrated capital ownership network was observed as well. Höpner and Krempel noted that in 1996, 60 of the 100 largest German companies were connected within a single component.[7] This high degree of unity in the component structure of the corporate network indicates that the network of Deutschland AG was not characterized by a structure of different competing corporate groups. Although some large companies in Beyer's analysis of capital ties were not integrated into the network at all - around 25 percent[8] - those that were integrated nonetheless fit into an overarching structure.

(2) *The strong involvement of three major banks—Deutsche Bank, Dresdner Bank, and Commerzbank—in the interlinkage structure*: The law lifting the restrictions on the establishment of credit institutions in 1956 allowed these three large banks to re-establish themselves, and since their establishment in the early days of the Kaiserreich they have significantly shaped the banking landscape in Germany and internationally.[9] During the peak phase of Deutschland AG, the business model of these three major banks was primarily focused on lending to companies. Some commentators attribute Germany's comparatively low stock market capitalization to the control over the issuance business exercised by these three banks, which systematically forced companies into credit financing.[10] The business model relied on raising necessary credit funds through the collection of savings deposits, offering savers relatively low interest rates while providing loans to companies at higher rates. By focusing on lending, the banks acted entrepreneurially,[11] holding a vested interest in maintaining the solvency of the companies and establishing control mechanisms. The strategic interest that universal banks developed in interlocking directorates and interlocking capital investments can be derived from the opportunity to reduce credit risk. Through supervisory board mandates, they could gain insights into the condition of companies that extended far beyond legally required disclosures. Capital investments and chairing positions increased the likelihood that they could intervene directly in the management of controlled companies during crises. The advantages of interlinkage relationships could, in part, be passed on to the companies by providing lower-interest loans, allowing long-term lender-borrower relationships to develop (house bank principle).

The high intensity of interlocking activity among the three major banks—Deutsche Bank, Dresdner Bank, and Commerzbank—was early on a focal point of public debate. The 1964 Concentration Commission indicated that in 1960, 15 of 20 individuals with more

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[6] Beyer, „Managerherrschaft" (1998), 151.

[7] Höpner/Krempel, „Politics" (2004).

[8] Beyer, „Managerherrschaft" (1998).

[9] Until the banking crisis of 1931, other banks of similar size (e.g. Danat-Bank, Disconto-Gesellschaft) were present in the national context.

[10] Hax, „Debt" (1990).

[11] Gerschenkron, "Backwardness" (1962), Windolf, "Unternehmensverflechtung" (2006), 195.

than 15 supervisory board mandates were bank representatives, and another 22 individuals held more than 10 board positions at that time.[12] To restrict the influence of bank executives like Hermann Josef Abs of Deutsche Bank, who held more than 30 board positions, the stock law reform of 1965 limited the number of external mandates to 10, and no more than five such positions could be added for corporate groups. Despite this legal intervention, the banks' strong position in the interlocking network remained largely unbroken for a long time. According to Eglau, Deutsche Bank still held around 400 mandates on the supervisory boards of German public companies in 1989.[13] A similar conclusion applies to capital interlinkages. Biehler, for example, in his analysis of the 330 largest companies in 1981 noted that the major banks were "strongly overrepresented" among the owners.[14] Subsequent analyses confirmed the highlighted involvement of banks across different historical periods.[15] Table 1 illustrates the integration of Deutsche Bank, Dresdner Bank, and Commerzbank into the structures of Deutschland AG in 1992 through a network analytic walk analysis.

Table 1: Integration of three major banks into the network (walk analysis), 1992

	Deutsche Bank	Dresdner Bank	Commerzbank
Capital ownership ties			
Walk 1	26 (3.7 %)	11 (1.6 %)	15 (2.2 %)
Walk 2	69 (9.9 %)	47 (6.8 %)	40 (5.8 %)
Walk 3	123 (17.7 %)	103 (14.8 %)	76 (11.0 %)
Interlocking directorates			
Walk 1	83 (13.5 %)	76 (12.3 %)	65 (10.6 %)
Walk 2	435 (70.6 %)	418 (67.9 %)	396 (64.3 %)
Walk 3	534 (86.7 %)	527 (85.6 %)	521 (84.6 %)

Source: Beyer 1998, Table 14, own calculations; Notes: In a walk analysis, the number of nodes (here: companies) in a network is determined, which are directly (Walk 1) or indirectly connected through multiple edges (Walk 2, Walk 3). The table shows the number of connected companies, as well as the percentage of connected companies in relation to the total number of potential connections (percentages in parentheses). The figures refer to a network of 694 (capital ownership interlinkage) or 616 German large companies in 1992 (interlocking directorates).

(3) *The existence of a center of a close network, which represents the most important German companies*: The existence of a center of tight ties was first proposed by Rolf

[12] Konzentrationsenquete, "Anlageband" (1964).

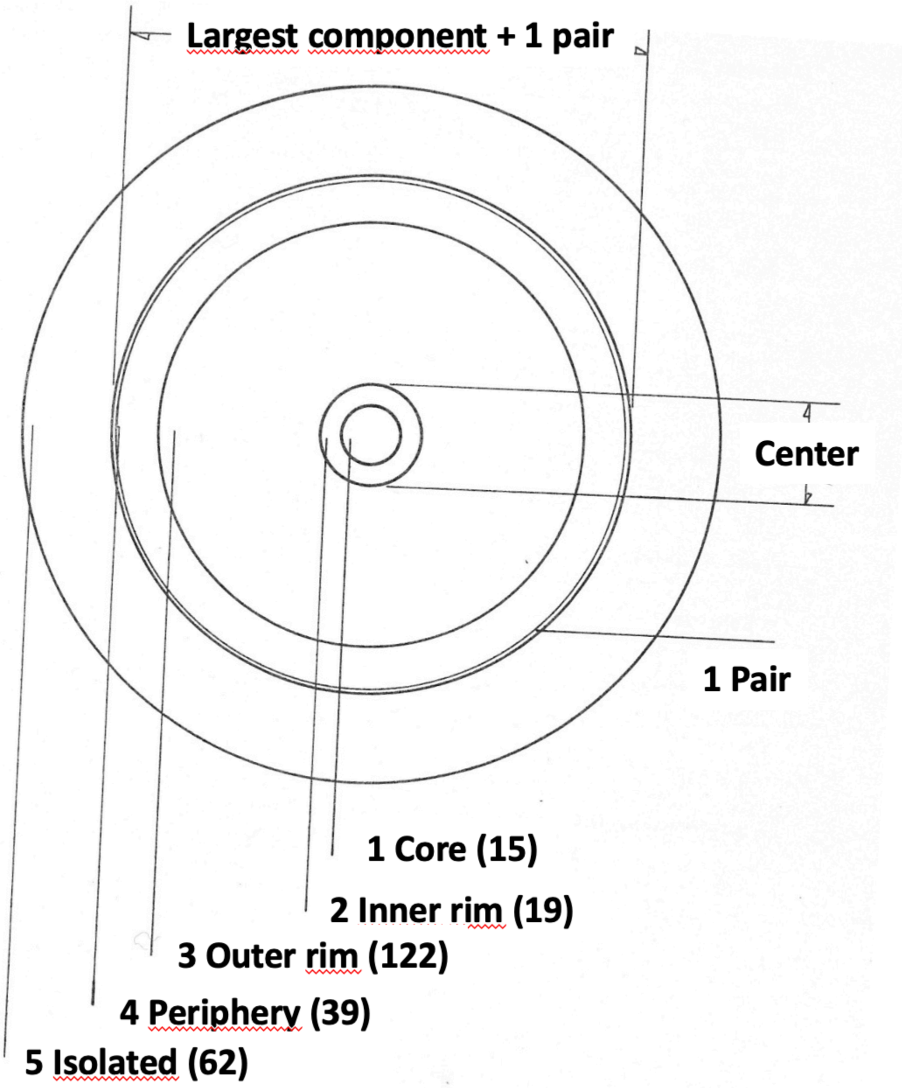
[13] Eglau, „Gott“ (1993), 129.

[14] Biehler, „Kapitalverflechtung“ (1986), 89.

[15] Beyer, „Managerherrschaft“ (1998), Beyer, „Kapitalismus“ (2006), Fohlin, „Finance“ (2007), Furch, „Marktwirtschaften“ (2012), Krenn, „Macht“ (2012), Nollert, „Unternehmensverflechtungen“ (2005), Pappi/Kappelhoff/Melbeck, „Struktur“ (1987), Wixford/Ziegler, „Bankenmacht“ (1995).

Ziegler.[16] Referring to the interlocking directorates of German companies in 1976, he noted that the network of corporate interdependencies was characterized by a central area of high density surrounded by areas of decreasing density (see Figure 1).

Figure 1: Graphical representation of the central areas of the interlocking directorate structure, 1976



Source: Ziegler, "Netzwerk" (1983), p. 53. The respective radius corresponds to the number of companies in the centrality area.

Corporate managers in the density center of the Deutschland AG network were attributed by national and foreign commentators with guiding potentials extending beyond their respective corporate boundaries. In John Scott's words, the boards of directors and supervisory boards of the companies at the center of the interlocking directorate network during the peak phase of Deutschland AG were "meeting places for

[16] Ziegler, „Netzwerk“ (1983).

capitalist interests."[17] According to this view, the individuals involved no longer acted solely in their own or their company's interest, but also took into account broader economic interests. Although the composition of the center changed over time, as Beyer has shown,[18] it was strongly related to sectoral changes and the decreasing significance of individual companies. Notably, the largest public companies were integrated into the network in the center or at least in the inner boundary area for several decades. Signs of disintegration of Deutschland AG led to a marked reduction in the density of the center by 2000.[19] The composition changed to the extent that some of the largest and most important companies were no longer integrated into the interlocking directorate center.[20]

(4) *A close coupling of personal and capital ties*: Unlike in Anglo-American countries, in post-war Germany there was a close link or strong parallelism between interlocking directorates and capital relations. In contrast to Anglo-American countries, in postwar Germany there was a close link or strong parallelism between interlocking directorates and capital relations. While in Anglo-American countries individual interests and personal qualifications determine the composition of corporate boards,[21] in the Deutschland AG system it was primarily organizational interests that determined the allocation of supervisory board positions. Through a reconstitution study, Schreyögg and Papenheim-Tockhorn concluded that interrupted personal interlinkages were predominantly restored over a period of 20 years, maintaining relationships between the connected companies.[22] Steger, Kohlenbecker, and Germann refer to this in terms of "management by networking",[23] which shaped the personal ties between German supervisory board members over long periods. Therefore, for Deutschland AG, it applied particularly that "companies attempt to address the uncertainties imposed by the environment through an appropriate composition of supervisory boards."[24]

(5) *A high degree of intra-sectoral interlocking*: In an analysis focused on the period 1896-1938, Windolf describes interlocking directorates and interlocking capital as complementary institutions to cartels. [25] Interlocking directorates enhanced the integration of cartel members through reciprocal presence on supervisory boards, allowing conflicts of interest to be resolved and contract adjustments to be negotiated more easily within the network during the duration of a cartel agreement. Cartels were associations of companies within the same economic sector, primarily established to control prices and

[17] Scott, „Structures“ (1987), 215.

[18] Beyer, „Managerherrschaft“ (1998), 157.

[19] Windolf, „Zukunft“ (2002), 425.

[20] Beyer, „Deutschland“ (2002).

[21] Windolf/Beyer, „Kapitalismus“ (1995), 25.

[22] Schreyögg/Papenheim-Tockhorn, „Aufsichtsrat“ (1995).

[23] Steger/Kohlenbecker/Germann, “Management” (2009).

[24] Schiffels, „Aufsichtsrat“ (1981), 268-269.

[25] Windolf, „Unternehmensverflechtung“ (2006), 200.

production volumes. For corporate networks in post-war Germany, as was the case between 1896 and 1938, the density of linkages within economic sectors was typically greater than the density of linkages between different economic sectors.[26] The structures of Deutschland AG were influenced by the tradition of a cartelized past, as the high intra-sectoral interlinkage densities provided opportunities for regulating competitive conditions. Both interlocking directorates and capital ties were thus politically regarded as concentration phenomena[27] and have been statistically recorded in the main reports of the Competition Commission since 1978.

The various structural elements of Deutschland AG collectively facilitated inter-company coordination. However, Deutschland AG is not a product of a master plan; rather, the individual elements have their own history, which generally dates back to before World War I.

III. Consequences of Departing from Deutschland AG

The end of Deutschland AG was initiated around the mid-1990s by various developments.[28] The formerly particularly tightly interlinked universal banks began to reorient themselves due to strategic corporate considerations. Capital ties were dismantled in favor of a stronger focus on investment banking, and the supervisory board positions in non-financial companies, once highly valued by bank representatives, were abandoned to avoid conflicts of interest arising from new business activities. Non-financial companies also began to detach from their former house banks and capital investments in other large corporations. The increasingly prevalent guiding principle of maximizing shareholder value as a corporate goal was at odds with the logic of the Deutschland AG. In the political realm, financial market promotion was discovered as a new objective, leading to the enactment of four laws with this explicit aim between 1990 and 2002, as well as several other laws (e.g., the Contradictory Law of 1998) and amendments (e.g., the removal of corporate tax on capital gains from share disposals by public corporations) with similar effects. Additionally, the public became quickly accustomed to the new realities, such as stock prices in television news (since 1989) and investing in mutual funds.

Since the mid-1990s, the formerly characteristic network of corporate ties has been disintegrating. Figures 2 and 3 show the ownership linkages of the 100 largest German companies in 1996 and 2010. The interlocking structure, which in 1996 was characterized by numerous relationships between large firms, shows significantly fewer links in 2010 and loses its character as a broadly integrated network. With the dissolution of the network structure of the Deutschland AG, there has been a departure from the former nationalized system of corporate governance.

[26] Windolf/Beyer, „Kapitalismus" (1995), Windolf „Unternehmensverflechtung" (2006), 217.

[27] Schönwitz/Weber, „Verflechtungen" (1980), 98.

[28] Beyer, „Pfadabhängigkeit" (2006), 142.

Figure 2: Capital integration of the 100 largest German companies, 1996

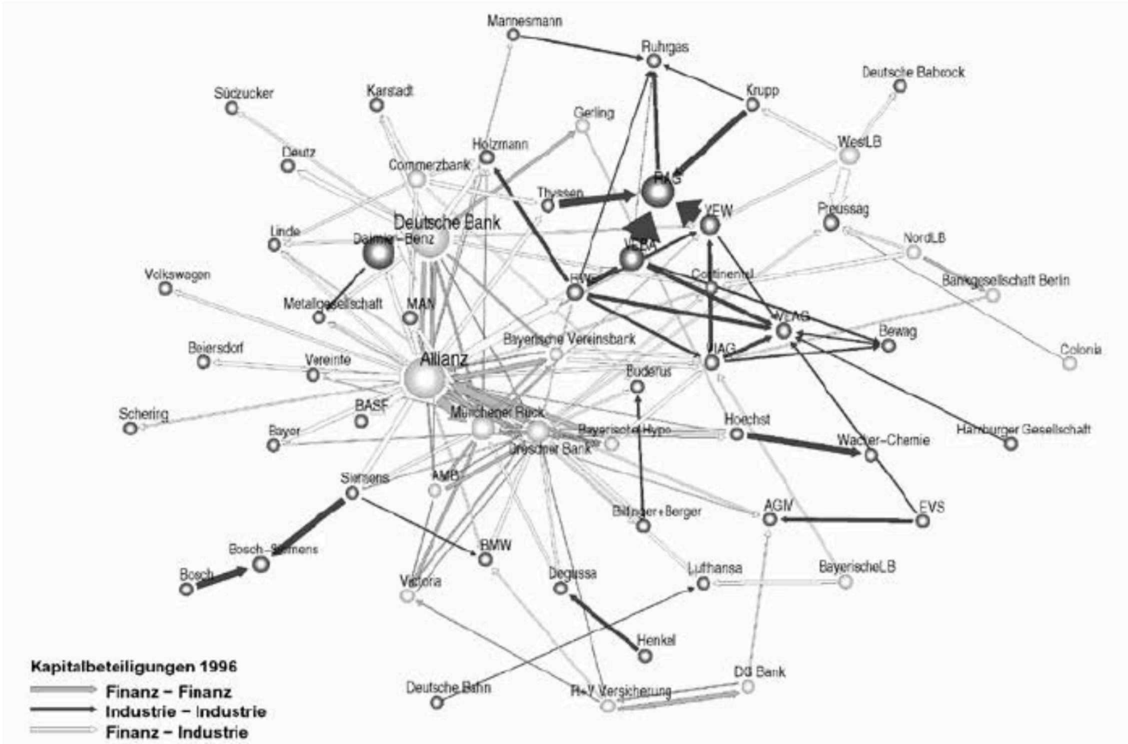
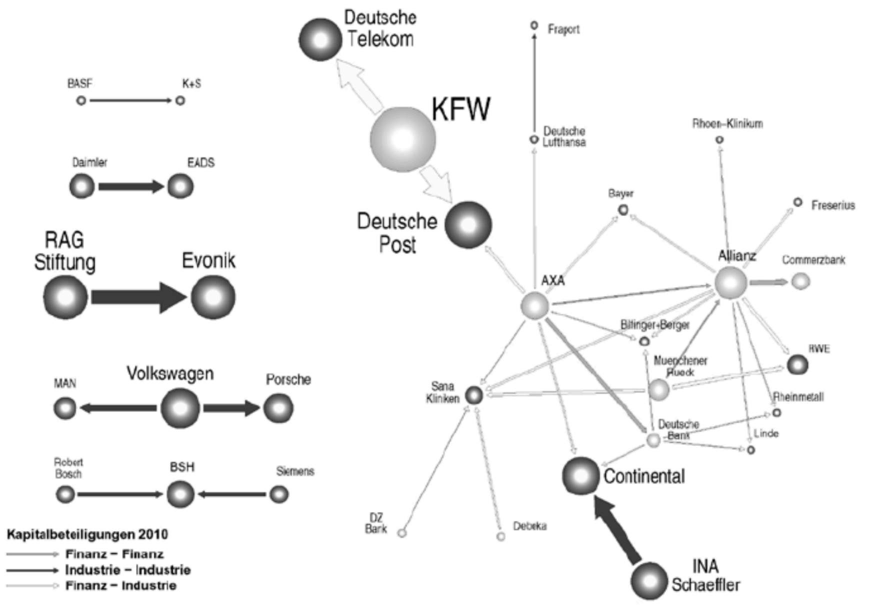


Figure 3: Capital integration of the 100 largest German companies, 2010



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Sources: Höpner/Krempel 2004, 2; Krempel 2012, http://www.mpifg.de/aktuelles/themen/doks/Deutsch-land_AG_2010.pdf, Beyer 2013.

Instead, large German companies are now incorporated into the control structures of a global "financial market capitalism."[29] The implications of this departure from Deutschland AG and the shift to global corporate governance are highly diverse. The following five aspects will be emphasized: (1) the power to influence corporate objectives, (2) the commercialization of corporate governance, (3) the shortening of decision-making horizons, (4) participation in global risks, and (5) the understanding of corporate responsibility.[30]

(1) *The power to influence corporate objectives:* The largest stock banks were among the most influential core companies of Deutschland AG in the past. The relations of the banks, whether through equity capital or through mandates, primarily served to reduce credit risk. Due to their relationships with many companies, a strategic orientation developed in favor of coordinating or regulating competitive relationships from the interest of credit security.[31] Through their diverse interlinkages, banks were able to enforce "a specific form of economic rationality"[32] within the network-based German system of corporate governance. They were not interested in their borrowers pursuing risky profit-enhancing strategies. Instead, they particularly valued the reliable repayment capacity of the borrowing companies. This control orientation contributed to the fact that the strategies of companies integrated into Deutschland AG were more directed toward maximizing revenue rather than profit maximization, and more focused on preserving organizational resources rather than acting as risk buffers or distributing high shareholder returns.[33]

With their withdrawal from Deutschland AG, the major German banks lost their former cross-company power to influence management's objectives. They exchanged coordination opportunities within the network for the prospect of higher own returns. For a brief time, it was assumed that the attractiveness of owning shares for small shareholders would have improved significantly as a result. However, without the possibility of class action lawsuits present in "Common Law" countries—with the prospect of sometimes exorbitantly high compensation payments—the various new financial market laws did not provide adequate protection against opportunistic practices of corporate management and other compensable market risks.[34] The rush to the "people's share" of Deutsche Telekom, the stock market boom of the 1990s, and the rise of the "New Market" thus remained a brief interlude in German economic history. Small shareholders

[29] Windolf, „Finanzmarkt-Kapitalismus" (2005), Deutschmann, „Finanzmarkt-Kapitalismus" (2006), Beyer, „Kapitalismus" (2006).

[30] See also Beyer, "Globalization" (2009). There, the changes in Deutschland AG are described as the demarcation effect of globalization.

[31] Windolf/Beyer, „Kapitalismus" (1995).

[32] Windolf, „Finanzmarkt-Kapitalismus" (2005), 22.

[33] Beyer/Hassel, „Effects" (2002), de Jong, „Governance" (1997).

[34] LaPorta/Lopez-de-Silanes/Shleifer/Vishny, „Investor" (2000).

were unable to fill the resulting control gap and left the market in large numbers after often frustrating experiences.[35]

Consequently, the opportunity to influence corporate objectives shifted to other actors. Primarily, investment and hedge funds[36] emerged as a new relevant ownership group.[37] These operate in competition with each other for maximum returns. The competitive pressure is passed on by investment and hedge funds to the companies in which they have acquired shares, urging the corporate management to achieve high returns. Unlike the quasi-owner companies of Deutschland AG, investment funds typically hold single-digit percentage stakes in each company. Because the likelihood of finding a buyer for their ownership diminishes with the height of the company's stake, previous shareholders had to expect control discounts when selling their shares. Due to their lesser stakes, investment funds are hardly affected in this regard. They can, like small shareholders, always utilize the "exit" option. However, unlike small shareholders, it also pays off for them to articulate their interests ("voice"), so they can credibly threaten to withdraw if their demands are not addressed.[38] The influence of investment companies has since become significant in many German companies. For example, the investment company BlackRock is involved in all German firms represented in the DAX30 stock index.[39] The increase in power of institutional investors is further reinforced by the fact that the various funds generally have aligned interests concerning the profit orientation of the companies, often opposing undesirable business strategies collectively, even if not necessarily in an organized manner.

A significant regarding the influence of corporate strategies after the dissolution of Deutschland AG is also played by rating agencies and analysts. These information intermediaries condense information such that different investment opportunities can be compared using simple classifications (e.g., 'AAA' vs. 'BB-' or 'strong buy' vs. 'sell'). Rating agencies evaluate issuers based on the likelihood that they will meet their interest and repayment obligations. The agencies monitor whether companies comply with accounting regulations, publish quarterly figures on time, and transparently present their business strategies. In doing so, they facilitate exit and voice actions for institutional

[35] Between 1988 and 2000, the number of direct shareholders almost doubled from 3,192,000 to 6,211,000. Since then, the number of shareholders has fallen to 4,890,000, see Deutsches Aktieninstitut, "Factbook" (2012).

[36] According to estimates by Deutsche Bank, hedge funds manage around 2,300 billion dollars worldwide and are responsible for a large proportion of daily securities transactions (see "Dunkle Macht der Wall Street" Handelsblatt Online, 01.03.2012). The strategies of these funds are very different. Some funds, the so-called quants, specialize in making short-term profits - they do not calculate in years, but in days, if not minutes, and trade computer-controlled with shares, foreign exchange and other securities that can be sold quickly. Activist hedge funds, on the other hand, try to play an active role in corporate policy once they have invested in companies. They calculate with high payouts from company assets and restructuring profits.

[37] Useem, „Capitalism“ (1996), Windolf, „Eigentümer“ (2008).

[38] Hirschman, „Abwanderung“ (1974), Windolf, „Finanzmarkt-Kapitalismus“ (2005).

[39] Cf. "Machtwechsel", Die Zeit Online, http://www.zeit.de/2011/19/Finanzdienstleister-BlackRock.

investors.[40] They also assess the mode of business operations, the market environment, and personal qualities of management, thus influencing which strategies and corporate objectives are considered relatively low-risk or risky. The risk assessments of rating agencies have become critical decision-making bases for global financial market transactions, leading them to be seen alongside investment funds as "new masters of capital."[41]

Analysts have also gained power to influence corporate objectives. Their buy and sell recommendations are based on assessments of potentially market-relevant events, announced economic core data of the companies, historical price trends, and evaluations of company policies. In the flow of continuous information, analysts form expectations regarding the behavior of stock and securities traders and other investors—and thus regarding the behavior of "the market." Their evaluations also affect what is considered a legitimate practice of corporate governance. The common disdain for diversification through the inclusion of a "conglomerate discount"[42] in analyst recommendations can be cited as one of the most apparent influences on corporate governance practices. An important implication of the departure from Deutschland AG is that the aforementioned financial market actors have gained increased influence over the direction of corporate governance. Some companies can avoid this power due to lesser dependence on financial markets; however, they must still endure the risk of deviating behavior from the accepted practices prevalent in the "organizational field."[43]

(2) *The commercialization of corporate governance:* In the German corporate tradition, large capital companies were not organizations that were solely meant to enhance the private wealth of their owners, but rather quasi-public institutions that were intended to serve politically defined national interests.[44] While shareholders owned the shares, the companies were obligated not only to them but also to a variety of other stakeholders. The German model of corporate governance was therefore considered a typical stakeholder system. A stakeholder-oriented company must ensure that various interests are taken into account during strategic decision-making. This includes diverse objectives such as wage fairness and job security for employees, product and service quality for customers, and credit safety for creditors.[45]

Moreover, large capital companies were not free from political influence. Politics utilized the structures of Deutschland AG to increase the compatibility of corporate decisions with overarching societal concerns, such as job security. The state was capable of intervention and held large companies accountable. Numerous examples can be cited

[40] Windolf, „Finanzmarkt-Kapitalismus“ (2005).

[41] Sinclair, „Masters“ (2005).

[42] Burch/Nanda, „Diversity“ (2003).

[43] DiMaggio/Powell, „Iron“ (1983).

[44] Streeck/Höpner, „Einleitung“ (2003), 11.

[45] Allen/Carletti/Marquez, „Stakeholder“ (2006), Kelly/Kelly/Gamble, „Stakeholder“ (1997), Vitols, „Shareholder“ (2004).

over decades: state-initiated investments of the insurance industry in the coal and steel industries in 1950/51, intervention in pricing at Volkswagen in 1962, pressure to preserve the Gerling Group against the resistance of its main owner Hans Gerling in 1974, the intervention to prevent the sale of parts of the distressed AEG Group to foreign interests beginning in 1982, the bank billion as a contribution to revitalize the East German economy in 1993, or the politically pressured temporary rescue of the crisis-ridden Holzmann Group in 1999.[46]

In the new global system of corporate governance, one can hardly expect other companies to rescue distressed enterprises—unless it is based on individual economic calculations. The loosely-knit network of corporate interlinkages can no longer ensure overall economic coordination, and the state cannot compel companies that focus solely on individual economic goals to act in an economically oriented manner. With the dissolution of the network of Deutschland AG and the reorientation of major banks, the state has lost its points of contact for coordinated industrial policy interventions.

Thus, the demise of the Deutsche AG also led to the commercialization of corporate governance. The concept of corporate governance and corporate law in Germany was originally aimed at embedding companies in society.[47] In the model of market-oriented corporate governance, however, the focus shifts primarily to embedding companies in the market, where they are also treated as commodities. Companies have come to be understood as a market sphere,[48] a transaction-cost efficient institution,[49] or a bundle of contractual relationships,[50] and as such are evaluated primarily on the basis of their economic efficiency. The legitimacy of exercising power within the organization is tied to profitability and is not considered independently from it. The production of goods and the employment of workers are no longer valued in themselves. If profit thresholds of 10, 20, or more percent return on capital cannot be surpassed, investments do not occur or appear illegitimate. This also results in regulations originally meant to promote the companies' integration into society (like co-determination regulations) now bearing the burden of proof to act as "beneficial constraints,"[51] i.e., being compatible with the market's efficiency logic. Normative debates around the criteria for "good" corporate governance that ran parallel to the dissolution of Deutschland AG quickly turned into discussions about efficient management structures, optimal board sizes, and the economic benefits of supervisory board co-determination.[52] The various stakeholder groups continue to be highlighted as addressed parties in the corporate objectives of most large

[46] Höpner, „Kapitalismus“ (2003), 305.

[47] Klages, „Wiederentdeckung“ (2007).

[48] Alchian/Demsetz, „Production”(1972).

[49] Williamson, „Institutionen“ (1990).

[50] Jensen/Meckling, „Theory“ (1976).

[51] Streeck, „Constraints“ (1997).

[52] Höpner, „Mitbestimmung” (2004), Jürgens/Lippert, „Kommunikation“ (2005), von Werder, „Mitbestimmung“ (2005).

German companies. Hence, even after the dissolution of Deutschland AG, the institutional differences between various economies have not been entirely erased,[53] but the balance of interests among the different stakeholders has shifted in favor of institutional investors and various financial market actors due to the commercialization of corporate governance.[54]

(3) *The shortening of decision-making horizons in corporate decisions:* The structures of Deutschland AG previously favored long-term corporate perspectives. The banks, which were particularly integrated into the network, traditionally played a significant as relatively "patient" capital providers.[55] In Germany, corporate financing was characterized by long-term credit relationships. The banks had privileged access to information due to the diverse interlinkages, which allowed them to assess the economic situation and potential developments of the companies. For a long time, this positively influenced the financing costs of companies, enabling them to align their corporate decisions according to the terms of their loans in a long-term manner.

However, during the process of dissolving Deutschland AG, corporate financing has undergone substantial changes. Over time, the importance of bank credit has steadily declined, with its share decreasing from about 32 percent in 1991 to 18 percent in 2010.[56] Instead, funding from non-financial companies and institutional investors has increased. The declining importance of bank credit has also impacted the maturity of external financing. Whereas until the 1990s, external financing was predominantly based on long-term loans, the financial resources from non-financial companies and institutional investors are mainly short-term loans. Consequently, the financing structure of companies has changed, leading to the necessity to incorporate shorter-term financial goals into corporate decisions more frequently.

With the diminishing of banks as long-term lenders, the relative importance of the traditionally short-term-oriented financial market has increased. Additionally, the internationalization of the financial market has further shortened investors' horizons. Institutional investors compete globally for financial resources, making it generally difficult for them to pursue long-term strategies.[57] They are evaluated based on their performance in previous years, with below-average performance in subsequent years leading customers to reduce or completely withdraw their deposits. Consequently, institutional investors align their investment strategies with short-term profit realization opportunities and transmit this short-term orientation to the increasingly financially market-influenced corporations and their management practices.[58]

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[53] Hall/Soskice, „Introduction“ (2001), Thelen, „Varieties“ (2012).

[54] Windolf, „Eigentümer” (2008), Kädtler, „Finanzialisierung” (2009).

[55] Lütz, „Governance“ (2003).

[56] Deutsche Bundesbank, „Entwicklung“ (2012), 21.

[57] Windolf, „Finanzmarkt-Kapitalismus“ (2005).

[58] Rappaport, „Economics“ (2005).

The tendency towards short-term actions is evidenced by research firms noting that corporate planning horizons have shortened from previously 15 years to about 5-7 years since the 1990s.[59] It is also reflected in the significantly reduced average tenure of CEOs in German public companies, particularly since the 1990s. According to Freye, the "increasing turnover, evident in the more frequent appointments and departures as well as in the shortened tenures […] can be regarded as an indication of the commercialization of recruitment."[60] The increased influence of financial markets since the dissolution of Deutschland AG translates into shorter tenures, action spans, and decision-making horizons.

(4) Participation in global risks: The departure from the former system of a national overarching network structure has also led to companies being much more exposed to global risks than in the past. This was particularly evident during the financial and economic crisis of 2008, which began as a housing crisis in the U.S. The collapse of the U.S. housing market also had a significant impact on German financial institutions, which had shifted their strategies toward risk-taking. Instead of minimizing the information asymmetry between borrowers and lenders through close contact, banks securitized the risks from loans, distributing them across different risk tranches and bringing them to the capital market. In doing so, the risks were passed on to investors who lacked detailed knowledge about the specific situations of the borrowers. This also applied to banks, which in their investment activities relied on the assessments of rating agencies or managed it in accordance with the capital requirements of the Basel Committee on Banking Supervision. The global and, at the same time, minimally transparent distribution of risk positions led to a loss of trust among lenders during the crisis, exacerbating the crisis. During the peak phase of Deutschland AG, German financial institutions were still understood as the "financiers of the German economy,"[61] with a focus on minimizing risks primarily within the national market. In the unconstrained financial market capitalism, the financial issues faced by American homeowners not only unexpectedly hit German banks hard but also shook the entire global economy.

Similarly, the departure from Deutschland AG has increased the risks faced by non-financial companies. Since the 1990s, many German non-financial companies have increasingly aligned themselves with the financial markets and, following the shareholder value trend, have introduced operational performance metrics based on financial goals (EVA, MVA, etc.) and new capital market-oriented accounting forms or have catered to the demands of institutional investors by focusing on core businesses.[62] The shift in corporate strategies towards optimizing returns has been accompanied by a greater willingness to take risks in operations, leading to increased insolvency risks.[63] Dörre points

[59] von Wuntsch/Bach, „Steuerplanung“ (2012), 27.

[60] Freye, „Führungswechsel“ (2009), 77, own translation.

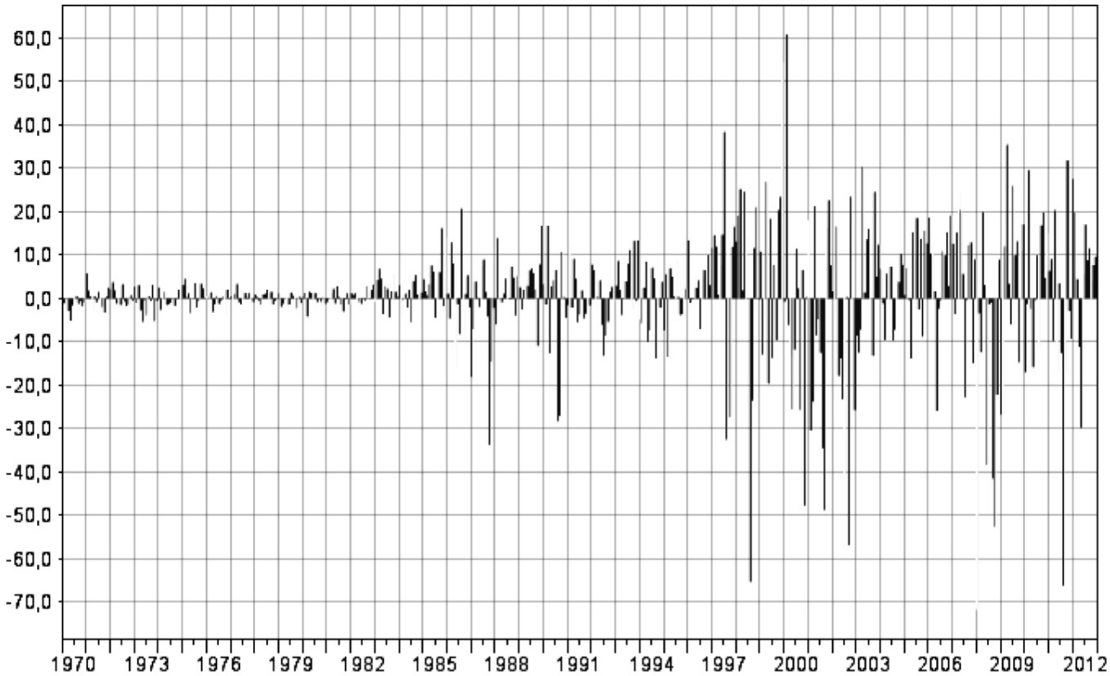
[61] Borscheid, „Jahre“ (1990), 430.

[62] Faust/Bahnmüller/Fisecker, „Unternehmen“ (2011).

[63] Vgl. Albach/Brandt/Fleischer/Yang, „Marktwirtschaft“ (1999).

out that during this time, a "flexible production model" developed, allowing companies to adapt to the "regime of short time" of global financial markets—thereby also beginning to replicate the fluctuations of the financial markets in their operations.[64] This is particularly significant as stock market volatility has markedly increased in recent decades. Figure 3 shows the average absolute changes in the Composite DAX (CDAX) index from one month to the next. The data presented indicates that price fluctuations have significantly risen since the 1980s, particularly from the 1990s onward. The catalysts for economic fluctuations are now the global financial markets themselves, leading financial and non-financial companies to be increasingly exposed to global risks. The structures of Deutschland AG had previously acted as a shield against the influences of the financial markets. With the dissolution of the network structures, the companies became much more directly exposed to the volatility of the financial markets.

Figure 3: CDAX Index, absolute changes from the previous month, quarterly average



Source: Deutsche Bundesbank, Time series BBK01.WU001A: CDAX Index

(5) Refocused *understanding of corporate responsibility:* In the context of Deutschland AG, the social responsibility of large corporations was interpreted primarily from a national perspective. National stakeholder groups (primarily employee representatives, as well as political interest representatives) were embedded in the corporate control structures, thus institutionally restricting actions at the expense of third parties or the externalization of costs. Moreover, there were informal understandings of when a company crossed the threshold of socially responsible behavior. "Neither the buyout of legal obligations, as in the case of the sale of Siemens' mobile telecommunications division to BenQ, nor the laying off of thousands of employees while simultaneously posting record

[64] Dörre, „Produktionsmodell“ (2002).

profits, as seen with Deutsche Bank, would have been accepted in this context."[65] The irritations triggered by market-oriented practices in society are a resonance of formerly valid ethical expectations of corporate behavior. Announcements of record profits accompanied by layoffs pose no contradiction for companies primarily accountable to their shareholders. Interpreted as a signal for the continuation of successful restructuring, this news may become a reason for shareholders to celebrate.

Disappointed expectations in society lead to uncertainty about what corporate social responsibility companies are willing to assume. Therefore, the transformation of corporate governance is accompanied by a growing discourse on "Corporate Social Responsibility" (CSR).[66] Companies must increasingly disclose to the public their position on social responsibility and sustainability and what contributions they make in this regard. However, this disclosure is now directed towards an international audience, as it is primarily international non-governmental organizations and transnational social movements, such as the World Social Forum, that keep this issue on the agenda. Consequently, and because the old norms of Deutschland AG no longer apply, there is a shift in the meaning of social responsibility. Social responsibility is shifting from a national to a transnational context. Child labor in developing countries is thematically elevated, while the preservation of jobs in Germany is losing significance. Moreover, corporate responsibility is being actively redefined in the discourse on "Corporate Social Responsibility," as companies participate in shaping the interpretation of the term. As a signal, declarations regarding sustainability and "CSR" have long been incorporated into stock market evaluations. Specialized funds cater to investor groups that prioritize these aspects in their investment decisions. As information among many others that influence stock performance, social behavior gains relevance for market-oriented companies, particularly when it has a positive impact on stock exchanges. Various studies provide evidence that this can happen.[67] The commercialization of corporate ethics[68] is thus underway and is also a consequence of the process that led to the end of Deutschland AG

IV. Conclusion

For the German economy between the 1960s and the 1990s, typical features of corporate interdependence can be identified: (1) The majority of Germany's largest firms were integrated into an overarching network of personal and capital ties. (2) The largest and most important firms were at the center of the densest networks, while less important firms were often only peripherally involved. (3) Most of the interlocking directorships and ownership ties originated in the largest universal banks. (4) The correlation between capital and personal ties was high. (5) The density of networks within industries was generally greater than that between industries. As a result of these structural

[65] Hiß, „Corporate" (2007), 14, own translation.

[66] Bluhm, „Corporate" (2008).

[67] Hillman/Keim, „Shareholder" (2001), Orlitzky/Schmidt/Rynes, „Corporate" (2003).

[68] Senge, „Corporate" (2007).

characteristics, a specific form of corporate governance developed in Germany that, in contrast to the Anglo-American context, aimed not only at limiting the opportunistic behavior of salaried managers but also at further reducing corporate risks. The close-knit network helped to collectively mitigate corporate crises, to eliminate structural imbalances in entire sectors of the economy through bank-led restructuring, and to fend off unwanted foreign takeovers in a coordinated manner.

The close relational network among the largest companies also limited competition among domestic rivals. Due to the particularity of this structure, which facilitated coordination, the term Deutschland AG has become established. The aim of this paper was to identify the characteristics of Deutschland AG and illustrate the consequences of the departure from the former national model of corporate governance. Even though academia and the business press still occasionally refer to Deutschland AG, the structural conditions have changed in such a way that it seems unlikely that inter-company coordination in the sense of Deutschland AG could reemerge. The dissolution of Deutschland AG is rather a remarkable example of societal adaptability. Structures that had persisted for decades and defined the functioning of the German economy have disappeared within a few years.

The economic and social science assessment of Deutschland AG has been inconsistent in the past. On one hand, some commentators evaluated the interlinkages as an economically inefficient structure primarily interpreted as a tool for securing the managerial power position.[69] On the other hand, Deutschland AG was seen as an element of a coordinated economic system, providing specific comparative advantages in international comparison.[70] Consequently, opinions differ on whether the structures of Deutschland AG proved to be an advantage or disadvantage for the German economy in the historical phase between 1960 and 1990. This contribution has highlighted various effects of the dissolution of Deutschland AG, which can also be assessed inconsistently. The opportunity to influence corporate goals has decreased for the banks, which were once tightly integrated into the network. In contrast, institutional investors, rating agencies, analysts, and other financial market actors have gained influence. Depending on the perspective, this development can be classified as either positive or concerning. The commercialization of corporate governance has reduced the state's ability to intervene, largely freeing companies from their social embedding. The shortening of decision-making horizons can be both lamented and deemed an inevitable consequence of intensified international competition, just as the changed understanding of corporate responsibility can be assessed in various ways. Regardless of perspective, it can be stated that the institutional framework for the management and supervision of companies has changed significantly due to the dissolution of Deutschland AG.

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69 Wenger, „Kapitalmarktrecht“ (1996).

70 Hall/Soskice, „Introduction“ (2001), Streeck, „Constraints“ (1997).

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