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Pepper D. Culpepper
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Corporate Control and Political Salience

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

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

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

[1] Albert (1993: 75).

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

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

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

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

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

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

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

[5] Cioffi and Höpner (2006), Tiberghien (2007).
[6] Gourevitch and Shinn (2005).
[7] This argument about the source of managerial preferences draws on the work of Michel Goyer (2002, 2006a, forthcoming).
[8] Tiberghien (2007), Schaede (2008).
[9] Goyer and Hancké (2005), Schaede (2008).
[10] Jackson (2003), Goyer (2002, forthcoming). Strong firm-level labor is not only a constraint. Works councils can improve production by providing information from workers that management lacks. The cost, from a managerial and shareholder perspective, is the slower process of adjustment (Freeman and Lazear 1995). The devolution of autonomy to workers is a central part of Dutch and German production strategies, one that managers often consider an advantage in international competition (Goyer 2006a).

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

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

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

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

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

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

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

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

Political Salience and Interest Group Politics

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

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

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

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

[15] Wilson (1973), Gormley (1986).

[16] Olson (1965).

[17] Wilson (1973).

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

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

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

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

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

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

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

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

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

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

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

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

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

[28] Gormley (1986).
[29] Lupia (1992, 1994), Sniderman et al. (1991). I am grateful to Peter Gourevitch for reminding me of the relevance of informational cues in this context.
[30] Lupia (1994).

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

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

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

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

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

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

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

[34] Iyengar (1991: 11).

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

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