7. Conclusion

7.1. Introduction

What can we learn from this study into the politics of corporate governance regulation in postsocialist Europe? What kind of conclusions can be drawn empirically, theoretically and practically? In this concluding chapter I will address these questions. First, I will return to the research question and elaborate on how the main findings of this set of articles answer the question posed in the introduction. Second, I will discuss how the articles in this dissertation contribute to the two theories mentioned in the introduction; the varieties of capitalism and the transnationalisation of the state. I will argue that rather than juxtaposing these theoretical paradigms they cast a different light on the same developments, which are both useful in their own right. Finally, I will examine what can be taken from this study with regard to policy conclusions.

7.2. Towards answering the research question

This study deals with the politics of corporate governance regulation in postsocialist Europe. In the introduction I have posed the central research question that has guided my work during this dissertation: Why did the different corporate governance systems in East Central Europe converge after the mid 1990s despite their initial divergence and how did this process take place? This section, I will start with a discussion of the three types of convergence in the field of the postsocialist corporate governance framework. Subsequently, I will identify the three (transnational) forces that offer a strong explanation for this convergence, before addressing the theoretical implications of this process of convergence in the next section.

In this dissertation, I have identified three interrelated kinds of convergence. First, there has been regulatory convergence, which in its turn contains two components. Whereas the first postsocialist corporate laws were inspired by the different presocialist traditions of the countries in the region, we have seen regulatory convergence since the second half of the 1990s. This convergence materialised in the company law revisions that were made in order to meet the criteria laid down in the Acquis and in order to cope with some of the corporate governance problems that had
emerged as a result of a lack of institutional safeguardings to protect the newly established private property rights. This process of regulatory convergence has contained convergence in substance as far as the revisions in postsocialist company law focussed increasingly on the necessity of a safe environment for investors and on the necessity for a certain degree of flexibility in order to cater to the needs of transnational corporations investing in the region (see in particular chapter six). At the same time, the process of regulatory convergence also contained convergence with regard to modes of governance. In this respect, the introduction of soft regulation, such as corporate governance codes and a shift from public oversight to private oversight via the stock market, catches the eye. These developments can be traced back in all four ECE states and constitute a second component of postsocialist regulatory convergence.

Besides regulatory convergence, there has also been institutional convergence. In chapter two and three I have discussed the central institutional features of the postsocialist corporate governance system in Central Europe. At first sight, the institutional set-up in Central Europe resembles the coordinated market economy model with its two-tier boards, low market capitalization and insider control. This is not very surprising since Germany, and to a lesser extent Austria, has had a strong influence on the region since the 19th century. But as I have pointed out in this dissertation, the similarities between the formal institutions of the Rhineland model and the model that has emerged in Central Europe are superficial. Due to the importance of informal institutions as well as the defining element of foreign ownership in the region, the ECE corporate governance system functions primarily to the benefit of transnational capital and is in this respect different from the Rhineland system (see chapters two and three). As I have pointed out in chapter two, the dependence on foreign capital for economic development has profoundly shaped all the important postsocialist socio-economic institutions that together currently constitute a rather stable system.

Third, these developments are embedded in a wider process of policy convergence, where the states of the region have aimed to make themselves as attractive to foreign capital as possible. Whereas during the first half of the 1990s, the ECE countries opted for different national growth strategies, these strategies have been abandoned
after they ran into economic and political problems during the mid 1990s (see Drahokoupil 2008). With regard to corporate governance regulation, we can observe that these strategies have resulted in increasing awareness for the interests of transnational capital, materialised in increasing attention for shareholders’ rights and internal transparency.

What then accounts for this convergence? One of the key points of this dissertation is that this common trajectory with regard to postsocialist corporate governance systems of Central Europe can only be adequately captured if we pay attention to the vital role transnational forces have played in the postsocialist restructuring process towards a capitalist market economy. They have been the decisive factor in the explanation of the convergence of the ECE corporate governance systems. If we are to understand convergence in the field of corporate governance regulation we can only do so if we take its transnational character into account. The concept of transnationality that has been elaborated on on several occasions in this dissertation, starts from the idea that in a globalising world, political processes are not restricted to the national state, but constructed by processes that simultaneously occur at subnational, national and international levels. These different levels are not separated from each other, but are rather integrated through structures and forces that operate at different levels at the same time.

In the case of postsocialist Europe we can observe three forces that contributed to the three kinds of convergence discussed in the previous section. In this section, I want to point at three interrelated processes that have contributed to the convergence of corporate governance regulation. First, there is the process of European enlargement, which has led to considerable convergence by the implementation of the regulatory framework laid down in the Acquis. Second, the spread of international standards of good corporate governance and their subsequent translation into national regulation has been another force of corporate governance convergence. Third, the attempt of the postsocialist states in Central Europe to promote industrial upgrading by attracting FDI has led to corporate governance arrangements that not only promote the inflow of foreign investments but also aim at promoting their comparative advantages that lie in sectors such as automobiles and consumer electronics (see chapter two).
<table>
<thead>
<tr>
<th></th>
<th>Year</th>
<th>Status</th>
<th>Main corporate governance issue</th>
<th>Primary means of enforcement</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>White Paper</strong></td>
<td>1995</td>
<td>Pre-accession strategy addressing key policy areas for reform</td>
<td>Creation of private property through privatization</td>
<td>Technical Assistance</td>
</tr>
<tr>
<td><strong>Accession Partnerships</strong></td>
<td>1998</td>
<td>A framework for activities necessary to achieve membership, including National programmes for the adoption of the Acquis</td>
<td>Institutional underpinnings of new economic order</td>
<td>Conditionality</td>
</tr>
<tr>
<td><strong>Annual Progress Reports</strong></td>
<td>Every year since 1997</td>
<td>Yearly report on the progress of the implementation of the Acquis</td>
<td>Various issues, mostly related to a) legal framework and b) state involvement in the economy</td>
<td>Conditionality, in combination with benchmarking</td>
</tr>
</tbody>
</table>

One of the most obvious transnational processes that have contributed to corporate governance convergence in the region has been the process of acquiring European Union membership, which coincided with a growing attention for the institutional underpinnings of the emerging market economies inside the region as the Czech and Hungarian studies point out. Table 7.2 provides an overview of the most important corporate governance aspects in the agreements between the Union and the applicant states in ECE. As I have pointed out in chapter four, the European Commission has influenced the regulation of corporate governance in several ways. It has presented templates of ‘good’ corporate governance regulation to the region, it has provided technical assistance via the PHARE programme and it has set up a twinning process during which experts from the old EU-15 were coupled to policy makers in Central Europe (see chapter 4). As I have pointed out elsewhere (Vliegenthart 2008a: 57), the process of EU enlargement involves a gradual shift from voluntary advice to strict conditionality. Especially with the signing of the Accession Partnership, the European Commission acquired the opportunity to influence the domestic policy debates via a close monitoring and benchmarking process. By these means the European Commission has promoted the integration of the region into the world economy and insisted on the establishment of regulation that would secure the newly established private property rights more clearly. At the same time, it downplayed the viability of any alternative to this process and left a clear mark on the institutional set-up of the postsocialist states.
The second transnational force that has contributed to convergence of corporate governance frameworks in the region have been the transnational templates for good corporate governance (see for a similar argument Van Apeldoorn and Horn 2007: 94). The clearest example of such templates have been the OECD Principles of Corporate Governance that were translated throughout the region into national corporate governance codes – table 7.3 provides an overview of the most important characteristics of these codes. As I have pointed out in chapter three, all the states in the region have adopted such codes, following the developments in Western Europe and the US. In this process they have received substantial help from various transnational actors. The different codes are remarkably similar both in their wordings and their objectives. They are aimed at socialising the various actors in the economy with notions such as the rule of law and respect for basic property rights (Vliegenthart 2008b: 18) and thus contribute to a convergence of expectations amongst different stakeholders in postsocialist Europe. The active support for this kind of convergence provided by transnational actors, strengthened the internal supporters of these codes in their policy discussions on the adequate kind of regulation (Vliegenthart 2008b: 21), resulting into an actual convergence in soft, but also hard, corporate governance regulation.

In general, corporate governance templates enjoyed increasing policy attention after the big international corporate governance scandals that swept around in the world at the end of the 1990s. Corporate scandals surrounding WorldCom, Enron and Ahold attracted attention of policy makers around the world. This has been no different in Central Europe, which experienced its own regional corporate scandals with the Polish PKN Orlen and the Czech Investment and Postal Bank in 2000. The translation of transnational corporate governance templates into national corporate governance codes implied the restructuring of state regulation and organisation in such a manner that it would be possible to translate the transnational consensus on how ‘good’ corporate governance should look like in a distinct national context (Vliegenthart 2008b: 10).
Table 7.3. Overview of the Central European Corporate Governance Codes

<table>
<thead>
<tr>
<th>Country</th>
<th>Issuer</th>
<th>Year of introduction of first code</th>
<th>Main objective</th>
<th>Transnational input</th>
</tr>
</thead>
<tbody>
<tr>
<td>Czech Republic</td>
<td>Czech Securities Commission</td>
<td>2001</td>
<td>Strengthening shareholders’ rights</td>
<td>British Know How Fund, Know How Fund</td>
</tr>
<tr>
<td>Poland</td>
<td>Institute for Business Development-Privatization Center</td>
<td>2002</td>
<td>The creation of shareholder value</td>
<td>IFC,</td>
</tr>
<tr>
<td>Slovak Republic</td>
<td>Financial Market Authority, diverse set of investment and management associations and the Bratislava Stock Exchange (BSSE)</td>
<td>2002</td>
<td>6 out of the 8 principles deal with strengthening the rights of shareholders</td>
<td>The British-Slovak Action Plan &amp; DFID, Milford International Associates LTD.</td>
</tr>
<tr>
<td>Hungary</td>
<td>Budapest Stock Exchange</td>
<td>2004</td>
<td>The protection of shareholders’ interest</td>
<td>Ernst &amp; Young Advisory Ltd</td>
</tr>
</tbody>
</table>

A third force that has been influential in the convergence of corporate governance regulation is the attempt of the postsocialist states in Central Europe to promote industrial upgrading by attracting FDI. Such a strategy will only be successful if indeed foreign investors consider the region safe enough for their investments, i.e. if there would also be a corporate governance framework that would promote the inflow of transnational capital. As I have argued elsewhere (Vliegenthart 2008c: 12), states in the region were indeed susceptible to the ideas of (the subsidiaries of) transnational corporations to enter this competition in the best possible shape. As a result, states have allowed transnational corporations to take a crucial role in the policy discussion on what kind of corporate governance mechanisms were to be preferred in the postsocialist context. At the same time, transnational corporations have introduced ample corporate governance practices in the region that originally stem from the Anglo-Saxon or Rhineland context. Their local subsidiaries apply these practices although they are not formally tied to them.

Of these three developments, European integration has probably been the strongest force pushing for convergence in the region. It has been at least the largest in terms of
regulatory change as the adaptation of the *Acquis* involved an impressive number of laws to be amended or to be introduced. In qualitative terms, once the Visegrád states had opted for the road towards membership EU influence has been the least voluntary. Whereas no international organisation required the introduction of a distinct corporate governance code as part of the their membership criteria and membership of world economy is not restricted to a single institutional set up, joining the EU required the compulsory introduction of the corporate governance mechanisms laid down in the *Acquis*. Structurally however, the path towards full integration into the world economy required an enormous overhaul of the existing institutional set up, hardly to be matched by the criteria of EU membership. However, integration into the world economy does not necessarily have to lead to convergence as I will later on in this chapter. The three processes have been mutually reinforcing. They fit into a global neoliberal atmosphere, which draws on soft regulation based on public-private cooperation, the integration of markets in order to facilitate the freedom and profitability of (transnational) capital. In the context of European integration this implies, as Heritier (2001) has pointed out, that many of the new modes of European governance hardly entail legislative means but are rather formulated as best practices, which have been developed with considerable help of private actors. In this respect, these modes of regulation bear close resemblance to the kind of corporate governance codes that have been introduced in postsocialist Europe. In the context of postsocialist economic restructuring, the European Commission has not only implicitly endorsed such codes but has rather explicitly supported national corporate governance codes as they were expected to lead to actual convergence with regard to corporate governance practices.

At the same time, state policies aimed at increasing the attractiveness of the postsocialist countries in the eyes of foreign investors explicitly draw upon voluntary codes that seek to reassure foreign investors. As I have pointed out in the study on the Polish corporate governance code, postsocialist codes are drawn with a specific eye on transnational investors that are lured by the promise of a safe institutional environment. Voluntary codes contribute to a process of socialisation of the various national actors in the postsocialist world with the demands and logic of the global economy. In this, the corporate governance codes discussed in this dissertation move
beyond a mere PR exercise with global investors as some suggest, as they are part of a yet incomplete process of adaptation that has been going on since the early 1990s.

Moreover, the process of European enlargement is closely connected with creating a stable environment for foreign investments in postsocialist Europe as the Czech study especially points out (but see also Holman 2004, Bieler 2002). It is no coincidence that FDI into the region only exploded after the Partnership Agreement that was signed in the second half of the 1990s. These agreements contained a seal of approval of one the world’s leading economic regions and signalled the willingness of the applicant states to live by the rules and demands of the global economy. At the same time, the process of enlargement has set off a new round of policy discussions in the EU during which the postsocialist states form an interesting template for potential future reforms (Vliegenthart and Overbeek 2008).

In this respect, many of the corporate governance concepts and policies introduced in the region after 1990 can be headed under the label ‘neoliberal.’ In this dissertation I have largely followed Harvey’s definition of the concept as ‘a theory of political economic practices that proposes that human well-being can be best advanced by liberating individual entrepreneurial freedoms and skills within an institutional framework characterized by strong private property rights, free markets, and free trade. The role of the state is to create and preserve an institutional framework appropriate to such practices’ (Harvey 2005: 2). Neoliberalism can thus relate to both an ideology in a ‘market place’ of ideas in which some succeed and others fail as well as concrete policies aimed at constituting an economy and society that meets the criteria mentioned above.

Perhaps needless to mention in this context, there is no single neoliberal policy, but rather a variegated set of policies that might differ on substantial issues but nevertheless all aim to secure at liberating entrepreneurial freedoms, establishing strong private property rights, free markets and free trade. Neoliberalism in core economies might therefore well have other traits than in the Visegrád countries. In the context of postsocialist Europe, neoliberalism that had become hegemonic in Western Europe and the US during the 1980s symbolised the desired ‘return to Europe’ with individual freedoms and free markets envisioned by many of the
region’s policy makers as also chapter three points out. Also within this region neoliberalism can manifest itself in different ways depending on the time and the concrete societal circumstances. The three emblematic studies presented in this dissertation point at this variety of policies, which all have in common that they seek to establish the unrestricted access of transnational capital to the region and its subsequent institutional safeguarding.

The fact that these transnational processes have had an important impact on the postsocialist corporate governance developments, does not justify the conclusion that the ECE corporate governance systems are completely externally imposed, nor that they have gone uncontested. On the contrary, this study points out that the development of corporate governance regulation can only be adequately captured if we start with the interplay between the three processes discussed in this section and seek to understand how these processes played out in the distinct national contexts of Hungary, Poland, the Czech and Slovak Republics.

As the study on the Czech Republic points out (chapter four, but also Vliegenthart 2008a), the process of European enlargement first influenced the internal Czech balance of power. The efforts of the European Commission to introduce a distinct type of capitalism led to considerable political discussions amongst Czech policy makers. The outcome of this process – and this is worth noting – was not one-to-one implementation of the Commission’s ideas but rather a translation of its ideas into the Czech context. The process of postsocialist institution making in this respect was co-shaped by the efforts of the Commission, primarily through interfering in the interplay between internal actors of which some supported the Commission’s ideas and others opposed it. The same point can be made for the Polish study (chapter five), where we have seen how transnational templates of good corporate governance promoted by several public and private transnational actors were translated into national policies. But again it were internal policy makers that sought to introduce these templates in such a manner that it would enjoy a sufficient amount internal support. The Polish corporate governance code, that was the eventual outcome of the cooperation between transnational actors and their internal supporters, impacted the way corporate governance was conceived in postsocialist Poland, strengthening the position of external ownership that had been contested during the early 1990s. Finally,
the Hungarian study (chapter six) points out that the postsocialist corporate governance regulation has been the outcome of the interplay between a wide variety of forces operating at various levels, ranging from the pressures of transnational corporations, via the implementation of Acquis and European Directives, to national historical developments that in interaction have resulted in an emerging set of laws that have undermined the position of Labour representatives in the Hungarian Supervisory Boards.

To conclude, this dissertation has three important conclusions with regard to the general research question. First, the convergence in the corporate governance systems of ECE after the mid 1990s can only be adequately captured if we take the transnational forces into account that have co-shaped this development. It is not the result of internal developments, nor the result of mechanistic demands from the world economy. Rather, it is a process that is formed in the interaction between important transnational actors and national policy makers. Second, this process of convergence has been especially fuelled by three important developments: the process of European enlargement, the spread of transnational codes of ‘good’ corporate governance and the attempts of national governments to make their countries as attractive to foreign capital as possible. Third, what these three developments have in common is that they are based on the neoliberal assumption that the rights of providers of capital need to enjoy the highest level of protection. There is a clear trend in the development of the ECE corporate governance systems towards emphasising issues such as financial transparency and shareholders’ rights.

7.3. Theoretical considerations and contribution

How do these empirical finding enrich our theoretical knowledge of the postsocialist corporate governance developments? To answer this question, this section is divided into six paragraphs. First, I will relate the empirical findings to two broader notions in the political science literature, convergence and common trajectories. Subsequently, I will devote two paragraphs to the problems these findings pose to the most important existing approaches to postsocialist socio-economic development, path dependency and neo-classical economics. I will discuss the inability of these two paradigms in explaining the general empirical trends found in this study. After that, I will come
back to the theories I have explicitly drawn on in the various chapters, the varieties of capitalism approach and the transnational modes of production literature. Here I will point out what this study contributes to the further development of these two distinct theories. In the final paragraph I will then turn to the question what I consider to be the additional value of combining these two theories, despite their ontological and epistemological differences.

On convergence and common trajectories

Together, the processes of European integration, abiding to transnationally constituted templates of good corporate governance and institutionally catering to the demands of foreign investors, help us to understand the developments with regard to postsocialist corporate governance regulation. These developments can be summed up in two different characterizations that both refer to a different set of literature. First, in terms of the VoC-vocabulary, we have seen a process of convergence amongst the ECE states since the second half of the 1990s. The differences between the various corporate governance systems have diminished, both with regard to the regulatory set-up of the postsocialist corporate governance systems and with regard to corporate governance practices that have emerged as a result of this set up. In each of the four Visegrád states we observe an increasing regulatory protection of the rights of (minority) shareholders at the expense of both the management and the employees, the establishment of a two-tier system and growth of soft regulation that is to accompany the basic corporate governance regulation laid down in the diverse national company laws. At the same time, all ECE states have gone through a process of ownership concentration after the first round of privatisation and have witnessed the dominance of foreign capital in the banking system that plays a key role in corporate governance practices at the expense of the national stock markets that have remained underdeveloped compared to the Anglo-Saxon world.

From an International Political Economy perspective, there is a second observation to be made on the basis of the three developments discussed in the previous section. Apart from the convergence amongst the four states that have been studied in this dissertation, we can also conclude that all four states have moved into the direction of a more neo-liberal, foreign-investment driven corporate governance system. Whereas
the four states had opted for nationally oriented growth policies during the early 1990s, they have moved towards what Drahokoupil (2007) has called a transnational workfare state. These developments are also reflected in the kind of corporate governance regulation that has been introduced since the second half of the 1990s. The three developments discussed in the previous section have been the driving forces behind this process. As I pointed out in the various in depth studies, the process of acquiring EU membership and the introduction of corporate governance codes have moved the systems in a direction that alters the relationship between the various stakeholders within the firm in favour of (the providers of) capital at the expense of the other stakeholders in the firm. At the same time, governmental efforts to increase the attractiveness of the ECE states has also led to the introduction of an institutional corporate governance framework that strengthens the rights of transnational capital.

Convergence and the problems of Path Dependency

Whereas there is a tendency to conflate the identification of common trajectories with convergence (Hay 2004: 232), in the case of postsocialist corporate governance reforms these two processes have gone hand in hand. As a result the region has gone through a process that on the one hand is characterised by a diminishing of internal variance whereas at the same time the differences between the region and other parts of world have remained substantial. This observation is especially striking because it is at odds with the dominant theories on postsocialist economic transformation I have discussed in the introduction. First, the fact that the corporate governance systems actually converged after the mid 1990s is at odds with path dependency accounts of postsocialist development that stress continued divergence amongst postsocialist states. Based on the idea that decisions made during the late socialist and early transformation period have left a lasting imprint on the paths of economic transformation. This study does not argue that these decisions do not matter, nor that national forces are irrelevant for the actual outcomes of this process. It demonstrates that this process is of transnational nature. Departing from the notion that the economic transformation process is inherently transnational also provides the explanation of why the corporate governance systems of the Visegrád four move beyond their distinct national trajectories. It provides an account of both the direction
of these changes, i.e. the fact that these systems have moved into a neoliberal, foreign-dominated system, as well as their actual convergence.

On an ontological level, the path dependency approaches on postsocialist restructuring start from the premise that postsocialist restructuring is primarily constituted within the nation state. What I have demonstrated however, is that the politics of corporate governance regulation, as part of the wider economic transformation, is transnationally constituted, i.e. that the transformation process is the result of a continuous interplay between a variety of forces at different levels. This implies that developments of the corporate governance systems in postsocialist Europe are shaped in a transnational social space, which is characterized by the hegemony of neoliberal thoughts and practices. It is also in this context that the affinity to neoliberalism of a large part of the national forces needed to be studied. Their relations with the most important transnational agents involved in the postsocialist restructuring process rests within this transnational social space and is not (artificially) separated from it.

Hence, what this dissertation points out is that the interplay between internal and transnational forces can alter the course of institutional development fundamentally. The developments with regard to postsocialist corporate governance regulation demonstrate that institutional choices of the early 1990s did not have the decisive impact on institutional development in the later periods of the economic transformation that we would have expected based on the path dependency approach. What we have seen is not a mechanism of institutional re-enforcement but rather an incremental shift away from these early arrangements. The fact that not only national forces and developments influence national institutions is key in understanding this trend. With regard to the theory of path dependency this implies that it are not only external shocks that can break existing paths, but that these paths can also be abandoned through a process in which transnational forces in interaction with national policy makers gradually unravel the existing institutional set-up and replace it by fundamentally different arrangement.

*The DME model and the problems of neoclassical economics*
Second, the findings of this dissertation contradict the neo-classical economic account on corporate governance convergence that predicts a convergence towards a one-size-fits-all corporate governance model. Although we observe a general trend amongst all four states towards a more neoliberal direction, a trend that has also been detected in other parts of the world (Wigger and Nölke 2007, Van Apeldoorn and Horn 2007), the corporate governance systems in postsocialist Europe have evolved remarkably different from the models in other parts of Europe and the OECD world. Especially when we link corporate governance issues to the ownership patterns in the region. As I have demonstrated, many of the larger enterprises have been taken over by foreign corporations that have integrated these firms into their transnational production process. As a result, major corporate decisions are not the outcome of negotiations between managers and shareholders, but rather between managers of the ECE subsidiary and western headquarters. This leads to close supervision of the local management by the corporation’s headquarters, rendering the corporate decision making process a truly transnational affair. The extent to which this happens in postsocialist Europe is unseen in other core capitalist economies and sets postsocialist Europe apart.

To formulate it differently, although we can detect common trajectories, which we can expect on the basis of the neoclassical convergence thesis, there has been no actual convergence on a single worldwide corporate governance model. On the contrary, what I have pointed out in this dissertation is that we need move beyond the existing two models of capitalism and their respective corporate governance models and enlarge this universe of varieties of capitalism with a third model that is based on the transnational notion of dependency on foreign capital. With regard to neo-classical economics, this study shows that there is more than a single equilibrium and that the mechanisms of the world economy have different implications for different parts of the world. There is no unifying, inescapable force that leads to a single world-wide corporate governance institutional set-up. At the same time, this study counters the implicit normative assumption underneath the neo-classical approach. Postsocialist economic development has demonstrated that countries that do not have corporate governance institutions and that are primarily market-oriented, can also enjoy a relatively long and stable process of economic growth. Whereas this is not to say that the developments in ECE are to be preferred politically, it demonstrates that even in
an age of globalisation there is still more than a single policy that can foster economic development.

Varieties of Capitalism

In this respect, the study conducted in this dissertation entails a clear contribution to the VoC literature (see especially chapter two). As I have pointed out earlier, we have witnessed an explosion of studies adopting a VoC perspective to postsocialist Europe (Lane 2007, Lane and Myant 2007, Cernat 2006 and Hancké, Rhodes and Tathcher 2007 to name the most important and recent studies). As Drahokoupil has observed ‘the “varieties of capitalism” approach seems to fill the theoretical vacuum left by the death of the “transition” debate in the political economic research on CEE’ (Drahokoupil forthcoming: 14). As such this is all that surprising given the fact in the most ‘advanced’ postsocialist states the period of transition has come to a close as these states have entered the European Union, their basic institutions are largely uncontested (De Raadt 2008) and most of the policy attention is dedicated to fine tuning the emerged system as I have demonstrated especially in the Hungarian study (Vliegenthart 2008c). The advantage of adopting a VoC approach to the case of postsocialist corporate governance regulation rests upon the fact that such an approach allows us to step away from the narrow economic and juridical bias of the corporate governance literature. It enables us to move beyond the current focus on microeconomics and offers the opportunity to focus on the embedding of the corporate governance system in a broader socio-economic configuration.

What sets the approach adopted in this study apart from the other studies in this field is its focus on the importance of the transnational corporation in the emerging DME. Whereas other studies that adopt a VoC approach to postsocialist Europe focus on domestic institutions seeking to establish complementarities between them, the approach Andreas Nölke and I have adopted starts from the importance of the internal mechanisms within transnational corporation that heavily influence the functioning of the postsocialist DME. In this respect, this approach seeks to overcome the ‘nationalist’ basis that tends to dominate many of the existing applications of the VoC paradigm to postsocialist Europe.
In this respect, we can speak of a VoC approach that comes to terms with the fact that in a globalising world, internal forces do no longer exclusively shape national institutions. Rather, as this dissertation points out, they are constituted in the interplay between various forces operating at different international, national and sub-national levels. As I have pointed out in chapter two, capitalism in Central Europe can only be understood in its dependency upon investment decisions in the headquarters of transnational corporations that operate outside the region. As a result, the hierarchy between TNC headquarters and local subsidiaries is the typical coordination mechanism within these economies (see chapter two).

There are however some fundamental problems with the DME model if we aim to capture the politics of corporate governance regulation in all its aspects. First, the DME approach leaves the state undertheorised. This is perhaps not so surprising given the fact that much of the varieties of capitalism approach does not entail a theory of the state either. This is problematic if we want to focus more specifically on the underlying power structure that sustains this model of capitalism. Second, given its focus (on the relationship between) the various national institutions, it is rather unclear with regard to the question how this distinct type of capitalism actually emerged. In this respect, it also seems to follow the VoC tradition where these questions remain largely unexplored with the exception of some attempts to explain its origins and its emergence (of especially the co-ordinated market economy) on the basis of a class settlement between employers and employees (but see Streeck and Yamura 2001, Iversen 2005, Kolbe 2006).

This why I have sought to complement my analysis of the kind capitalism and the kind of corporate governance system in the Visegrád four by discussing the emergence of the corporate governance systems in the three studies presented in this dissertation. I have found that the source of postsocialist corporate governance regulation stems from various levels and that the regulation itself is the product of a simultaneous interplay between a variety of forces operating concurrently at different levels.

**The transnationalisation of the state**
This brings me to the second contribution this dissertation makes to the field of the political economy. Especially in the three in depth studies I have sought to contribute to our empirical and theoretical understanding of the transnationalisation of the state. Adherents of the transnationalisation of the state paradigm argue that the processes of globalization impact on the capacity of states to organise their own national economies (Cox 1987, Picciotto 1990, Baker 1999). But instead of withering away, the state remains important as a locus of political decision-making. During the last few years, the concept has been quite frequently applied to countries that belong to the (semi-)periphery of the world economy. Stuart Shields is probably the most pronounced user of the concept of transnationalisation of the state within the ECE context. Drawing on Cox, Poulantzas and Panitch, Shields discusses the role of the Polish state after state socialism as one that takes responsibility of the interests of a nascent bourgeoisie and bureaucracy (Shields 2003: 136). In the case of Poland, foreign capital has lined up with a non-propertied managerial class and parts of the intelligentsia promoting the rapid liberalization of prices, the privatization of state property and the opening of the Polish economy to foreign capital. In general terms this has not led to the demise of the Polish state, but rather -following Amsden et al.’s (1994) account of international actors such as the IMF and WB- the hierarchical reorientation of the state apparatus in which some ministries are strengthened and others weakened. In this sense, Shields’ account takes up most of the components that are part of the concept of the transnationalisation of the state: 1) a policy reorientation of the post-socialist ECE states to the benefit of transnational capital, 2) a hierarchical process in which external ideas and concepts are being introduced into the subordinated social formation by actors that are closely tied to transnational capital and 3) a reorganization of the state apparatus to facilitate these two processes. Along similar lines Otto Holman has discussed the socio-economic developments in ECE. Empirically, Holman focuses on the content of the socio-economic consensus formed at the EU-level with regard to the economic restructuring in ECE and its translation into this area as part of the accession process of these countries.

The empirical research that underlies this dissertation confirms many of these mechanisms. The process of postsocialist transformation in Central Europe has indeed led to reorientation of the state strategies towards transnational capital. This process however only gained substantial pace after the mid 1990s when governments shifted
their attention to the institutional underpinnings of the emerging market economies. As a result of this increased attention for the institutional foundations FDI exploded. At the time we saw that the process of economic restructuring also had its impact on state hierarchy. In general, the Ministry of Finance was strengthened vis-à-vis the other ministries. This, however, has been a process that has not gone uncontested, as the Czech study on the Revitalisation Agency shows. It is rather a political process of which the outcomes are to a large extent influenced by internal developments and struggles. More specifically with regard to corporate governance regulation, we find that especially the Ministry of Finance has been involved in the development of corporate governance policies and not – as we might have been expecting – the Ministry of Economy. In all three countries that have been studied in depth we witness a process of coalition formation between transnational forces and internal actors. Initiatives from these kinds of coalitions have come from two sides, making it a dialectical process. In this respect it is important to stress that ‘local factors, social forces and projects have been quite autonomous’ (Drahokoupil 2006: 24); the postsocialist states rest upon autochthonous foundations and a process of reappropriation of institutions of transnational origin which gives it its own historicity (following Bayart 1993: 260).

At the same time, the findings move beyond the existing knowledge of the process of transnationalisation of the state. This dissertation further develops this concept in three ways. First, it provides new information on how neoliberal transnational forces engage in coalition formation with internal actors, a topic that has hardly been addressed in the current literature. It seems that there is quite some contingency in this process. Transnational actors quite clearly do not have blueprints when it comes to dealing with internal forces, let alone that there would be some kind of master plan with regard to transnational coalition building. Transnational actors are willing to support different competing internal groups that exhibit a neoliberal orientation as the Polish study most clearly demonstrates. It seems that this actually increases the competition amongst these forces. In this respect there is no unified neoliberal bloc within the postsocialist states, but rather different competing fractions that only exhibit gradual differences with regard to kinds of corporate governance policies they pursue. Transnational forces do not seem to engage in deep analyses of these differences. What seems to matter is the general direction of the proposed corporate
governance reforms. These findings undermine the picture of an all-knowing transnational bloc that acts rationally on the basis of a thorough knowledge of the local situation. The process of the transnationalisation of the state is in this respect subtler and rests upon the specific constellation within the state itself, contrasting the representation of transnational forces that is often given in the literature.34

Second, the findings of this study also further develop our insights into the internal support for neoliberal thoughts and practices. In some of the literature it is argued that there is substantial support for these ideas, which amongst other things can be traced back to the socialist era where the West with its economic wealth was considered something of the Promised Land (see Brockman and Eyal 2002). This dissertation reaffirms these findings. The individual studies demonstrate that there has been substantial support within the region for the kind of policies promoted by important agencies such as the IMF, the World Bank and the EU and that, moreover, there has been a willing ear for the demands made by transnational corporations with regard to the ‘right’ corporate governance structure. However, what this dissertation also points out is that there have been other rival ideas that were (and are still) widely spread amongst the ECE societies. This is probably most clearly demonstrated in the study on the Polish corporate governance concepts where I have pointed out that some of these ideas were indeed related to the promises of socialism. Elsewhere, I have further elaborated on the Czech controversy over the role of the Revitalisation Agency, which points out that despite transnational support, the neoliberal policy paradigm was not victorious on all occasions (Vliegenthart 2008a, see also Drahokoupil 2008). It seems that the current literature on the postsocialist transformation tends to overestimate the internal support for neoliberal thought and practices. Further research on this topic should take these internal controversies more seriously and engage with them more critically.

Third, and related to the second aspect, the findings in this dissertation point out that the transnationalisation of the postsocialist state is by no means complete and irreversible as we might conclude on the basis of some of the current studies on this topic (see amongst others Shields 2004). Rather, the process of the transnationalisation of the state is contested, even if it is indeed well underway and enjoys support amongst significant parts of the internal forces.
In this study, I have used concepts and approaches from different theoretical origins, most dominantly a transnational historical materialist perspective, which is amongst others reflected in the use of the transnationalisation of the state concept and a institutionalist perspective, reflected in adaptation of a VoC approach. These might seem unexpected partners, but in the following pages I will show that such a combination increases our comprehension of the process of postsocialist economic transformation. First, I will discuss what I consider to be the three important differences between the two approaches. The first distinction relates to an ontological difference, the second to the way in which the two approaches theorise the state and the third touches upon the relationship between structure and agency. After that, I will explain why such a combination is nevertheless helpful in our understanding of the postsocialist transformation process.

The first, ontological, difference relates to the primary level on which politics are constituted. The varieties of capitalism approach tends to depart from a nation-state oriented comparative approach. Although it acknowledges the fact that national institutional arrangements are the product of forces operating at various levels, it considers the national state as the ontological premise. Its central aim to explain capitalist diversity, which is predominantly studied within the boundaries of the nation state, leads to a strong focus on national institutions and the nation state as key arena for political struggles, nevertheless acknowledging that politics is not confined to the nation state alone and that external forces do impact upon national institutions. The concept of the transnationalisation of the state on the other hand is rooted within transnational historical materialism, which departs from a class analysis in which the state does not enjoy the ontological primacy. Rather, its focus on transnational class formation explicitly moves beyond the nation state (Overbeek 2004). It places the changing character of nation states within the context of the global economy, where the latter is the starting point of the analysis.

The second difference relates to the theoretical perceptions of the state. Following much of the mainstream political science approaches (Levi 2002: 33), the varieties of
capitalism approach hardly theorises the state. Implicitly, in following an institutionalist theory of the state, it sees the state primarily as a collection of (mostly socio-economic) institutions, ‘an institutional endowment, slow to change, imposing relatively fixed constraints on political actors within its borders’ (Kahler 2002: 75). When the VoC approach speaks of state strategies it refers to a holistic view on the state, in the sense that it is considered to be a unitary actor. In contrast, the theorisation of the state receives plenty of attention in historical materialist analyses. Such analyses see the state more in terms of different class factions. Rather than a unitary actor, the state is the product of class struggle. Transnational historical materialism stresses the political contestation within the different state apparatuses, such as different ministries, and considers the outcomes of state involvement as the product of political struggle, whereas the varieties of capitalism paradigm adopts a more functionalist approach to state policies, which are considered to be primarily designed to maintain the complementarities between the different economic institutions in order to create a distinct comparative advantage in the world economy.

The third difference relates to the agency-structure relationship, which has been widely debated during the last years. The VoC approach, with its focus on institutional structures, widely neglects the role actors play within the socio-economic life except for the central role of firms in socioeconomic activities. Given its attempts to capture the interplay between various socio-economic institutions, this is perhaps not so surprising. The contrary could be argued for the transnational historical materialist perspective. Whereas it theoretically emphasises the role of structures, its empirical analysis largely rests upon the study of actor behaviour and class struggle. There is little attention for in depth analysis of formal institutions and regulation.

To what extent are these differences unbridgeable? During the last few years, ontological and methodological issues have received increasing attention, also because of their epistemological and methodological consequences (Hay 2006: 78-80). This increasing awareness has led to sharper demarcations between the various fields. And indeed, it is impossible to integrate these two approaches into one. This has not been the aim of this study. Rather, what it has sought to do is to cast different lights on the same subject. What in this respect is the additional value of combining these two approaches?
The varieties of capitalism approach is primarily concerned with the question of how to understand the internal functioning of different socio-economic institutions. It seeks to explore the relationship between the different national socio-economic institutions and aims to point at state strategies that support these institutions that lead to distinct comparative advantages in the world economy. Its strengths lie in its ability to construct a holistic, but nevertheless still easily understandable picture of the institutional complexity of advanced capitalisms. In this respect, corporate governance arrangements are perceived as an element of the functionally interdependent configuration of this national economic system. As a consequence, this approach allows us to embed corporate governance issues in the wider socio-economic structures, which increases our understanding of their functioning as part and parcel of a distinct economic system.

To put it differently, the strengths of the varieties of capitalism approach rest upon its ability to provide a *synchronic* picture of complex capitalist systems that increases our understanding of the role corporate governance institutions within this. It stresses that these institutions do not stand by themselves but can only be adequately understood in their relationship with other socio-economic institutions such as industrial relations and state strategies towards economic policies.

Whereas its strengths lie in providing its comprehensive overview of a distinct socio-economic configuration and the role of corporate governance institutions within this configuration, one of its weaker spots lies in its inability to account for institutional changes that move beyond incremental path-dependent institutional change. Given its aim to characterise existing socio-economic systems and not explain their emergence, such changes seem to lie beyond the horizon of this framework. Yet, if we do not only want to understand the interplay between corporate governance institutions and other socio-economic institutions, but also its development –as is the case when we discuss the convergence of corporate governance regulation in postsocialist Europe- an understanding of the current system is by itself not enough.

Here the transnationalisation of the state paradigm makes a useful contribution. This research paradigm raises a different set of questions as it aims to capture the changing
nature of state intervention in a globalising world. Most of the empirical work within this strand of literature studies ‘the restructuring of the state apparatus and the way in which state agencies interact with each other and other forces at various levels’ (Vliegenthart 2008b: 9). In this respect it seeks to account for the changes in the state apparatus throughout time, taking a diachronic picture of the developments at hand. Its strength lies in its ability to capture the changing nature of state regulation and allowing for the identification of some of the driving forces behind processes of regulatory change. This allows us to understand the convergence of corporate governance regulation in the postsocialist context as part of a wider restructuring process that entails the repositioning of states in a neoliberal globalising world. This is however not without any problems. One of the main weaknesses of this approach lies in the fact that the transnationalisation of the state approach is quite clear in indicating the direction of change, i.e. from a state that functions as a buttress that protects the internal constituency from possible threats of the world economy, to a state that facilitates the integration of the internal structures into the world economy. It is not very accurate in indicating the exact kind of state institutions that are the result of such change. This is however exactly the strength of the varieties of capitalism approach that therefore neatly complements the transnationalisation of the state approach.

Given their different objectives, it is hard to argue that one of the two paradigms enjoys empirical superiority. Corporate governance regulation can be both an integral part of a wider national economic setting and the product of political contestation at the same time. Which of the two is to be chosen depends on the exact research question and the aims of the study. In this dissertation I have used the two paradigms to resolve my research puzzle. I have adopted a varieties of capitalism approach to investigate the kind of convergence that has emerged in the countries under investigation, and I have used the transnationalisation of the state approach to find out how this convergence has come about. I think that together, these two approaches have enabled me to answer the research puzzle in a satisfying way.

7.4. Policy conclusions
What can be taken from this dissertation with regard to policy conclusions? On the one hand FDI has contributed to the restructuring of important economic sectors, such as the automotive sector and chemistry. The inflow of foreign capital into the region has pushed their sectors beyond the process of defensive restructuring that dominated the first half of the 1990s (World Bank 1996). In this respect, policy makers in the region point at the Irish example, where foreign investment is said to have established an economic miracle making the country one of the best-off countries in the EU in the 1990s, whereas it was known for its economic backwardness in the early post-war decades. They therefore advocate the continuation of the current dominant strategy, which actively orients itself on the inflow of foreign capital and opts for competitive tax regimes that shift the burden of governmental revenues from corporations to workers and consumers (Vliegenthart and Overbeek 2008), whereas at the same it refuses the development of the welfare state arrangements that have –to a great extent- been dismantled during the late 1990s. In the field of corporate governance arrangements, such a strategy calls for further flexibilisation of the system to cater to the demand of TNCs whereas at the same time strengthening the rule of law and the protection of minority shareholders and increasing the internal transparency of corporate behaviour.

There are, however, a couple of important objections to such a policy. First, it neglects the fact that the development in the second half of the 1990s and early 2000s has been rather uneven. Economic inequality has rapidly increased, between haves and have-nots, between cities and the countryside and export oriented industries and those who produce for the regional market. These divisions have become politically manifest during the last few years. Citizens of the EU's new member states are increasingly confronted with the fact that membership of the European Union does not mean that one has entered the land of milk and honey, in contrast to what was popularly believed and promised by many of the regional politicians. In reaction to these shattered promises, we already have the rise of nationalist and populist tendencies that exactly point at these consequences of the current policies. These tendencies have been reflected in the riots against the Gyurcsany government in Hungary, the rise of the Law and Order Party (PiS) in Poland and populist tendencies in the Czech Republic and Slovakia. Bohle and Greskovits (2007) have rightfully pointed at the inherent instability of the current institutional set up of the region and it
remains to be seen whether in the long term a majority of the people would support a strategy that clearly continues to produce large inequalities and which leaves important parts of society underrepresented in the postsocialist order.

At the same time some of the current political aspirations of ECE governments might even gravitate this process. The aspiration to enter the European Monetary Union (EMU) in the coming decade is the clearest example of a policy objective that could further increase the inequalities between the winners and the losers of the economic transformation. EMU membership criteria contain clear demands with regard to state deficit, which is not allowed to exceed 60 per cent of GDP, and a maximum in the annual deficiencies in public spending of 3 per cent. Moreover, EMU states are also to cut inflation to a level that is not above 1.5 per cent of the average of the EMU states with the lowest level of inflation. To meet these criteria ECE states will have to cut public spending, which will probably lead to reductions in fields such as health care and education. Some of these reforms that are already underway, are meeting fierce resistance. Future reforms that further cut social spending would most likely strengthen the tendencies I have discussed above. Also the current financial crisis and the economic downturn will most likely hit the region harder than other parts of Europe. Whereas ECE is probably better positioned to face the challenges of an economic recession than the Baltic states, its dependency on foreign capital leaves little room to manoeuvre for policy makers compared to Western European states. At the same time transnational firms that face the economic recession might well start by cutting investments in their foreign subsidiaries, focussing on its core activities in their home countries.

To counter this widespread feeling of social discomfort, national but also EU and other international politicians should give far more attention to the development of the social aspects of the reform packages, which they currently support. This starts with the acknowledgement that as a result of economic reforms in central Europe, many people have lost out. Stubbornly clinging to the current course without any thought on the consequences could in the end act like a boomerang, coming back to hit the national arrangements and the legitimacy of institutional arrangements such as the cooperation within the EU. More directly to corporate governance issues, this implies
that corporate governance reforms should not only be aimed at protecting the providers of capital, but also at strengthening other stakeholders, especially workers.

Second, on a more systemic level, it remains to be seen whether these policies would indeed lead to the path that Ireland has been embarking upon. Whether the EU-27 is willing to invest the amounts of funds into the region that it has done to Ireland is still an open question. The Irish development occurred not only in a smaller European Union, in which economic inequality was substantially smaller than it currently, but also in a largely different socio-economic environment. It is however unclear whether this development is to be reproduced under totally different political and socio-economic circumstances.

These two downsides of the (assumed) economic success story of the Visegrád countries have become clearer since the financial crisis that hit the world economy during second half of 2008, has turned into an economic crisis in large parts of the world. In East Central Europe we see some of the nasty repercussions of the region’s dependency on foreign capital for their investments and West European markets for their exports. Capital inflows have largely dried out, whereas the demand for cars and other durable consumer goods has rapidly gone down. Though the region seems to be in a better position than other new EU member states, such as the Baltics, they have been hit hard by the economic downturn. At the moment time is to tell what kind of direction their economic trajectories will be taking. Yet what has become clear is that the path of a kind of dependent development these countries have embarked upon might well have serious draw backs- especially in times of global economic crisis.

In chapter two I have argued that politicians face the difficult choice between two different strategies. On the one hand, they might be tempted to further develop the existing comparative advantages, which would imply that their economies would remain dependent on foreign capital and, more importantly, ought to continue to competitive on wages vis-à-vis other emerging markets and the old-15. On the other hand, they might aim to move beyond the current position in the world economy in an attempt to create new arrangements that can be maintained in a globalised economy. The crucial difference between these two strategies relates to the way in which governments will deal with the different social forces in their own societies. In this
respect, the further development of the existing comparative advantages would be helped by a continuation of the current policies which are implicitly aimed at the structural undermining of the organised labour force strengthening the rights of the providers of capital at the expense of other stakeholders (see chapter six). On the other hand, the establishment of a serious social partnership between employers and employees would be a necessity in any strategy towards developing new comparative advantages. As Katzenstein (1985) has pointed out, the economic success of small economies in Western Europe and their ability to adapt to changing global conditions rests upon these kinds of partnerships. Such a strategy would not only need to include stronger social welfare provisions, but corporate governance reforms in the direction of more employee involvement in corporate decision making. The choice between these two options is intrinsically of political nature and will eventually be determined by the ability of those who propose an alternative to current strategy, to formulate these alternatives clearly and engage in effective coalition building at various levels, of which the relationship with the own population will be of vital importance.