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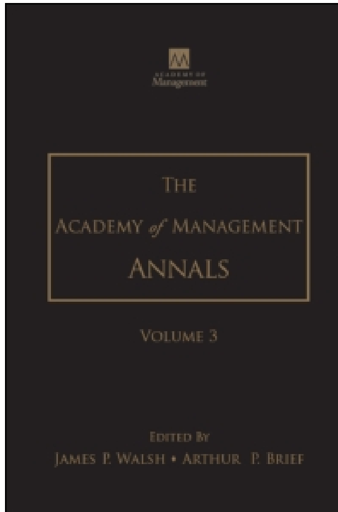

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Comparative and International Corporate Governance

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Comparative and International Corporate Governance

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Abstract
In this article, we examine the state of the art in comparative and international corporate governance by identifying the key research questions, main concepts, and paradigms of explanations of cross-country diversity in corporate governance. First, we discuss the multiple definitions of corporate governance across disciplines and explore how this multi-dimensional nature of corporate governance posses challenges when making cross-national comparisons. Second, we review existing comparative research on corporate governance and highlight some of the main characteristics of comparative analysis. Third, we analyze how comparative corporate governance has been understood from four different scholarly perspectives: economics and management, culture and sociology, legal, and political paradigms. We conclude from this third section that future research should make an effort to

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better integrate cross-disciplinary paradigms. Fourth, we investigate what insights these four perspectives bring to understand change and stability better in two particular governance dimensions: corporate ownership and the role of labor in comparative corporate governance. Finally, we conclude the article with some forward looking suggestions regarding (1) how different perspectives of corporate governance can be more effectively integrated by adopting case-based, historical, and actor-centered forms of institutional explanations and by (2) discussing the current U.S. corporate governance system, frequently seen as the "best practice" model.

Introduction to Comparative Corporate Governance

The study of corporate governance has become a burgeoning field over the last decade, and has sparked substantial interest in international comparisons. Early comparisons divided the world into two broad dichotomous systems: the Anglo-American corporate governance system, which is characterized by short-term equity finance, dispersed ownership, strong shareholder rights, active markets for capital control, and flexible labor markets; and the Continental European corporate governance system, which is characterized by long-term debt financing, concentrated blockholder ownership, weak shareholder rights, inactive markets for capital control and rigid labor markets (Becht & Roell, 1999; Hall & Soskice, 2001a; La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1998; Shleifer & Vishny, 1997). Over time, these stylized dichotomous frameworks have been refined to fit the empirical realities better in different countries. Although this dichotomy remains a useful framework to start the conversation, the stylized Anglo-American and Continental models only partially account for governance realities in Japan (Aoki, Jackson, & Miyajima, 2007; R.P. Dore, 2000; Gerlach, 1992), East Asia (R.P. Dore, 2000; Feenstra & Hamilton, 2006; Fukao, 1995; Gerlach, 1992; Hamilton, Feenstra, Choe, Kim, & Lim, 2000; Lincoln, Gerlach, & Ahmadjian, 1998), a wide range of European countries (Lubatkin, Lane, Collin, & Very, 2005; O'Sullivan, 2000a; Pedersen & Thomsen, 1997; Prowse, 1995; Rhodes & van Apeldoorn, 1998; Weimer & Pape, 1999; Whittington & Mayer, 2000), and the new emerging markets (Chung & Luo, 2008; Khanna & Palepu, 2000; Singh & Gaur, 2009). This effort to categorize the corporate governance world has been accompanied by normative discourses to determine which system is more effective and efficient in a given context.

The subsequent debate in comparative corporate governance asked to what degree globalization, the internationalization of markets, and deregulation have led to rapid changes in traditionally grounded models of corporate governance. Hence, we no longer took for granted the pure Anglo-American or pure Continental models, as most scholars saw corporate governance systems as embedded in different national and sectoral institutions, and influenced differently by global pressures (Gugler, Mueller, & Yurtoglu, 2004;

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Guillén, 2000; Khanna, Kogan, & Palepu, 2006; O'Sullivan, 2000c; Rugman, 2009). For instance, Ahmadjian and Robbins (2005), Buck and Shahrim (2005), Djelic (1998), P.C. Fiss and Zajac (2004), and Tuschke and Sanders (2003) have shown that when corporate governance practices, particularly those tied to shareholder value ideology, are exported from the United States to other countries, they tend to be translated and recombined with the local practices before they are adopted. As a result, only certain dimensions of the governance practice are fully implemented and their adaptation often leads to new or hybrid forms of these practices.

Comparative corporate governance scholars have thus sought to address a number of distinct questions: How is corporate governance practiced in different countries? Why are corporate governance practices similar or different across countries? Is it possible to identify international best practices of corporate governance, or do clear economic, social, and political tradeoffs exist between different corporate governance systems? To what the extent may practices be borrowed or adapted across international contexts? What factors explain the stability, change, or potential convergence of corporate governance practices over time and space? Little consensus exists on these issues. In this article, we hope to provide some insights into these questions and clarify which arguments are best supported by empirical evidence. To start tackling these issues, it is important to recognize that there have been many conceptualizations of corporate governance within and across disciplines, which creates significant challenges when taking studies of corporate governance to the comparative level. We therefore now turn to discuss the definition of corporate governance before examining how different perspectives have addressed comparative and international corporate governance issues.

Defining Corporate Governance

Corporate governance may be defined broadly as the study of power and influence over decision making within the corporation. Yet scholars have approached the subject of corporate governance from a variety of disciplinary perspectives, including economics, management, law, political science, culture, and sociology. Likewise, corporate governance has emerged as a key term in public policy debates around the world, refracting academic concepts through the lens of diverse institutions and cultures of discourse. Given both the multitude of theoretical perspectives available and diversity of corporate governance practices around the world, providing a clear and universal definition of corporate governance remains a challenging task. In this section, we review a range of available definitions. We show that some definitions are focused on universal, micro-level aspects of corporate governance; other definitions make greater reference to contextual factors and diverse institutions that are central to comparative analysis.

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Existing definitions of corporate governance are closely tied to different paradigms or ways of conceptualizing the organization or firm. Economists have tended to see corporate governance as a nexus of contracts among owners, who essentially pursue private means and run the corporation in their own self-interest without explicit obligations to society. Thus Zingales (1998) conceptualizes corporate governance from a Williamsonian perspective (Williamson, 1985) as "the set of constraints that shape the *ex post* bargaining over the quasi-rents generated in the course of a relationship" (p. 496, italic in original). The key issue here is that contracts are incomplete, and there is lots of room for bargaining about how to divide the firm surpluses. Other economists such as Shleifer and Vishny (1997) approach corporate governance from an agency perspective, arguing that corporate governance "deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment." This definition is very much tied to the idea of how shareholders in a managerial-controlled public firm will minimize their agency costs. Agency problems have been central to research among management scholars. For example, Walsh and Seward (1990) compare internal versus external mechanisms of corporate control. More recently, Dalton, Hitt, Certo, and Dalton's (2007) article on the Fundamental Agency Problem offers insightful arguments on how the agency theory perspective affects different corporate governance mechanisms such as boards of directors, ownership structures, and the market for corporate control. From a finance and economics perspective, and still with the agency theory as the driving force, Adams, Hermalin, and Weisbach (2010) review the role of boards and the challenges of their comprehensive study as a central piece of the corporate governance policy debate.

Other approaches to corporate governance in economics and management are inspired by theories of the firm based on the unique nature of the employment relationship (Gospel & Pendleton, 2005). One alternative to the principle-agent view is the "team production" model, which suggests that the corporation embodies a number of stakeholders who invest firm-specific resources, but jointly relinquish control over those resources to a board of directors for their own benefit in order to solve the problem of coordinating efforts within the team (Blair & Stout, 1999). Along similar lines, the concept of essentiality has been used to elaborate the idea that where human assets are essential to the productivity of the firm, control based on ownership of the physical assets or legal entity of the corporation cannot act as a substitute for cooperation or employee voice in decisions (Aoki & Jackson, 2008). Others have developed a wider theory of innovative enterprise, stressing how corporate governance may or may not support the strategic, organizational, and financial perquisites of innovation (Lazonick, 2007; O'Sullivan, 2000c). Again, these approaches define and research corporate governance in relation to economic problems of making investments in the firm, but extend the view

of organizations beyond agency theory to look at investments of human capital in particular. Finally, in management scholarship, stakeholder theory has become a useful framework to explain the complex and wider relationships among the different stakeholders in the firm (Donaldson & Preston, 1995; Freeman, 1984; Freeman, Harrison, Wicks, Parmar, & de Colle, 2010; Jones, 1995; Schneper & Guillen, 2004), a point that is also discussed in the corporate social responsibility literature (Aguilera, Rupp, Williams, & Ganapathi, 2007; Margolis & Walsh, 2003).[1]

Legal scholars tend to think about corporate governance in the context of the public firm. But a greater role is given here to the legal context, which shapes the rights and responsibilities of corporate actors. Corporate governance may be seen as the rules that sustain and regulate the mode of decision making within the corporation as a mechanism of social choice and in relation to a public interest (J.E. Parkinson, 1993). Traditional legal approaches were based on concession theory, which regards the corporation as owing its existence to an exercise of state power—in particular, granting the legal privilege of limited liability. This favorable treatment is explained and justified by the public interest functions performed by the private interests within the corporation. An alternative approach, however, is offered by entity theories of the corporation. These theories define the corporation as a real entity in itself—distinct from its members and separate from the state. Here "it is not the legal qualities of limited liability or separate personality in themselves that justify [state] intervention, but the concentration of power in private hands that has come about partly as a result of their existence" (J.E. Parkinson, 1993, p. 30). Thus, legal scholars characterize corporate governance more broadly to include factors that go beyond private contractual arrangements. For example, Blair (1995) defines corporate governance as "the whole set of legal, cultural and institutional arrangements that determine what publicly traded corporations can do, who controls them, how control is exercised, and how the risk and returns from the activities they undertake is allocated" (p. 3).

Organizational sociologists take an even broader view of the organization, which is mostly concerned with the power and authority relationships within which organization are embedded. G.F. Davis (2005) starts his essay on the "New Directions of Corporate Governance" stating that corporate governance refers to "the structures, processes, and institutions within and around organizations that allocate power and resource control among participants" (p. 143). Similarly, political scientists such as Gourevitch and Shinn (2005) have focused on the interactions of interest group preferences and political institutions, thus identifying corporate governance as the system that not only promotes growth and protects investors but also generates employment and fosters equality of opportunities. Aguilera and Jackson (2003) draw on an institutional actor-centered view of the firm in which the different stakeholders in the firm compete for resources to define corporate governance as the

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rights and responsibilities of these different stakeholders toward the firm. The innovative aspect of our definition is that we understand corporate governance as differing across multiple explicit dimensions in ways that yield diverse forms of firms, industries, and countries evolving in a dynamic and historical fashion.

Many more definitions of corporate governance abound. In our view, most previous definitions face significant limitations when applied to a cross-national context. Corporate governance is most often in a universalistic fashion linked to a very specific micro-economic or managerial problem setting, but neglects the institutional, legal, and cultural environment in which organizations and decisions are embedded. For example, finance scholars have paid little attention to the different organizational and institutional environments in which agency problems take place (Dedman & Filatotchev, 2008). One consequence is that corporate governance is often understood in relation to the publicly traded firm, and implicitly takes for granted the context of Anglo-American corporate governance—characterized by little direct state involvement, minimal legal rights for stakeholders, and so on. This model is often treated as a baseline of "good" corporate governance or described as being normatively superior based on particular assumptions within these theoretical models. Other definitions reject this universalistic view in favor of an emphasis on contextual factors and a less normative analysis of different models of corporate governance. But while these approaches refer to institutional or contextual factors, they tend to do so in a rather generic and undefined way.

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Toward a Comparative Perspective: The Role of Institutions

Most scholars interested in cross-nationally comparative corporate governance now agree that "institutions matter" for corporate governance, but how they matter remains a hotly contested question. National systems of corporate governance differ in terms of their institutional arrangements, and those differences shape the possibilities for change or diffusion of practices from one country to another. Yet, most research stops short of spelling out what those key institutions might be and how they matter for corporate governance as a firm-level phenomenon.

The theoretical and methodological approaches to studying institutions are diverse and draw variably from different fields of social science, such as economics (Aoki, 2001; North, 1990), sociology (W.W. Powell & DiMaggio, 1991; Streeck & Thelen, 2005), and political science (Immergut, 1998; Thelen, 1999). In fact, the very meaning of institutions is still contested, and despite much interdisciplinary cross-fertilization, institutional theory remains characterized by an eclectic set of approaches (Greenwood, Oliver, Sahlin, & Suddaby, 2008). Institutions may be defined as the rules and norms that guide how individuals, organizations, and markets interact with each other (North, 1990;

Scott, 2001, 2003). Institutional theory today is often concerned with processes of isomorphism, the construction of legitimacy, and explaining similarities among organizations within an institutional field. For example, research has focused on why the shareholder value ideology and practices have taken hold among for-profit U.S. corporations (G.F. Davis, 2009; G.F. Davis, Diekmann, & Tinsley, 1994; Dobbin & Zorn, 2005; Fligstein, 2001; W. Powell, 2001).

For the purposes of this article, we define comparative corporate governance as the study of relationships between parties with a stake in the firm and how their influence on strategic corporate decision making is shaped by institutions in different countries. Comparative approaches to studying corporate governance must, by nature, deal with the diversity across countries and over time. In this sense, comparative analysis seeks to address corporate governance in relation to its wider institutional environment with a given labor market, capital market, legal system, political system, and so on. We also see comparative corporate governance as intimately linked to comparative methods focused on explaining similarities and differences among cases in a systematic fashion.

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We suggest that comparative corporate governance scholars have predominantly distinguished between two types of research questions and approaches—a macro question and a micro question. The macro question of comparative corporate governance is how to explain the similarities and differences among corporate governance practices at the level of national cases. For example, why has Germany developed concentrated share ownership, whereas the U.S. shareholder is dispersed? The bulk of studies have focused on ownership patterns, but other key national-level outcomes include shareholder protection, board structure, employee involvement, or aggregate differences in "systems" or models of corporate governance. Meanwhile, the micro question of comparative corporate governance concerns whether or not these similarities and differences in corporate governance practices across countries are associated with particular firm-level outcomes, such as firm performance, stock market returns, economic growth, inequality, innovation patterns, and so on. For example, do U.S. firms deliver better shareholder returns than German firms?

Outline of the Article

In this article, we focus on four key issues related to the macro question of comparative corporate governance. First, we offer an overview of existing research on cross-national governance systems and the comparative method. Second, we explore the main contributions and limitations of different theoretical paradigms for explaining the diversity of corporate governance practices around the world. We also seek to assess how these paradigms hold up in light of internationally comparative empirical evidence on specific

aspects of corporate governance. Third, we investigate what insights these theoretical perspectives offer for understanding stability and change, as well as the diffusion and adaptation of corporate governance practices across institutionally distinct contexts. While our focus is largely on the macro question of comparative corporate governance, we also aim to show how macro-level questions might be used to inform micro-level comparisons of corporate governance practices, and, conversely, how selected findings from firm-level studies help contribute to debates among scholars focused on the macro questions. In particular, understanding the issues of diffusion and change of corporate governance requires scholarship that looks theoretically and empirically at the interface of institutions and organizations. Fourth, we conclude with a methodological note of how different perspectives of corporate governance can be effectively integrated, and we discuss the current U.S. corporate governance system, which until recently has been viewed as the "best practice" model.

A number of articles by organizational scholars have sought to take stock of the corporate governance literature, including: Mizruchi (1996), Guillén (2000), Keister (2002), Kang and Sorensen (1999), a special issue of AMR edited by Daily, Dalton, and Cannella (2003), P. Fiss (2008), Fligstein and Choo (2005), and Goyer (2010b). Our focus here looks at research that uses international comparison as an explicit element of the research design. Likewise, we tackle corporate governance from broader social-science perspectives, taking stock of debates in economics, law, sociology, and political science. In the next section, we discuss existing studies in cross-national diversity and the benefits of comparative methods, before turning to an examination of how different paradigms have explained cross-national differences and similarities in corporate governance.

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Research on Cross-National Governance Systems

The corporation is itself a legal institution, where the rights and responsibilities of different parties are anchored in law and thereby also created and changed through politics. At the same time, the legal skeleton of the corporation is filled out by the economic and social exchanges among actors such as owners, managers, employees, and so on. These actors have diverse sets of socially constituted identities and interests across countries. For example, the structure of shareholders may be very diverse, ranging from dispersed individual share ownership to concentrated ownership by blockholders such as families or the state, as well as intermediate forms such as ownership by institutional investors such as pension funds with some capacity to exercise voice despite relatively diversified portfolios. These different forms of social organization influence the relative power and influence of actors within corporate governance, and thereby lead to the institutionalization of diverse governance forms even within the same legal environment.

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Research on Cross-National Diversity in Corporate Governance

The notion of national diversity is largely accepted and discussed by the current textbooks in corporate governance, which are taught at business and law schools (Colley, 2003, 2005; Monks & Minow, 2008; Roe, 2005). They provide good descriptive introductions to the major features of corporate governance in a selection of countries, but also tend to be limited in focus to formal institutions. Thus common knowledge about corporate governance in different countries often remains somewhat over-stylized. And it is challenging for textbooks to keep up with the rapidly evolving empirical reality of corporate governance in recent years.

In the last two decades, multiple edited books have been published offering more comprehensive country-level studies of corporate governance systems. We discuss some of the main ones in turn. Keasey, Thompson, and Wright's (1997) book was one of the first to compile research on economic and financial analyses of governance issues in key governance topics across a variety of countries. Hopt's (1998) edited book compiles a large number of analyses, largely from a legal perspective but covering a range of subjects—the fiduciary duties of directors, the role of boards, financial and securities market regulation, and rules on employee codetermination in advanced industrialized countries. Gospel and Pendleton's (2005) edited book offers detailed country studies drawn from Europe, the United States, and Japan, focusing on the linkages between ownership and finance on one hand, and on forms of labor management such as employment relations, pay systems, and industrial relations on the other hand. Federowicz and Aguilera (2003) examine the evolution of corporate governance systems in Western and Eastern Europe in the years following the fall of the Berlin Wall. Keasey, Thompson, and Wright's (2005) edited book is a collection of essays on the competing diagnoses and solutions around the corporate governance problem in different countries (e.g., United Kingdom, Japan, and Germany) coupled with an in-depth discussion of governance practices (e.g., non-executive directors, institutional shareholders, compensation, etc.). Chong and Lopez-de-Silanes (2007) analyze corporate governance systems in Argentina, Brazil, Columbia, Chile, and Mexico, with special emphasis on the relationship between firm valuation and governance. McGee's (2009) edited book on developing countries presents short introductory studies of corporate governance systems in a large number of countries in Africa, Asia, and Latin America. Finally, Naciri (2008) covers what he refers to as the micro and macro theories of corporate governance, with an emphasis on accounting principles and looking at a wide variety of countries ranging from China, Canada, the United States, France, Hong Kong, MENA countries, and the EU countries.

For researchers interested in reading key reference articles, Clarke and Rama (2006) is probably one of the most up to date and comprehensive

sources on corporate governance with a strong international perspective. The editors have compiled 44 published articles from different theoretical lenses, covering a wide range of globally focused governance issues such as internalization of corporate governance, governance of multinational companies, competing models of governance, complex governance systems, corporate governance in developing countries, the influence of foreign direct investment in corporate governance, the implementation of governance reforms, privatization in transnational economies, convergence of governance systems, cultural diversity of governance institutions, and corporate social responsibility and sustainability.

In terms of international corporate governance, that is, how governance gets activated in the global market, a long tradition among international business scholars and students of the multinational firm examines the governance of intra-firm economic (international) transactions and the internalization process of firms that expand across national borders (Buckley & Casson, 2010; Hymer & Cohen, 1979; Kindleberger, 1969). Strange and Jackson (2008) address corporate governance from the perspective of international business, looking at how national diversity is linked with foreign direct investment flows or mergers and acquisitions (M&A) transactions, and thus reflect different understandings of the firm and corporate social responsibility around the globe. Unfortunately, however, almost no research exists centering explicitly on corporate governance issues within the multinational corporation (MNC)—such as how governance practices are transferred from home country to subsidiaries, or how born-global firms deal with governance issues across different cultural, legal, economic, and political environments.[2] One of the few exceptions is B. Kim, Prescott, and Kim's (2005) article discussing how corporate governance mechanisms get implemented in the MNC's headquarter versus in the MNC's subsidiaries. Substantially more discussion has emerged on a closely related topic to governance, that is, codes of conduct (ethics) and corporate social responsibility in MNCs (Bondy, Matten, & Moon, 2008; Williams & Aguilera, 2008). The role of formal corporate governance in the multinational firm and in cross-national organizational forms (i.e., international joint ventures) is a research topic that merits more attention in future research.

Comparative Analysis of Corporate Governance

International comparison of corporate governance raises important issues of comparing apples and oranges. Little consensus exists over how national patterns of corporate governance differ, what aspects of national diversity need to be explained, and what factors account for these differences. First, comparative typologies of national systems have focused too narrowly on particular institutions in isolation from each other, often introducing new ad hoc dimensions of comparison and stretching the definitional boundaries of

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corporate governance to fit the different realities of specific countries. The key actors and actor constellations within corporate governance differ very substantially across countries. No definitive theoretical approach exists to map the similarities and differences across countries and how these cohere into discrete types. Second, scholars continue to debate what factors best explain the diversity of corporate governance across countries. Many scholars see distinctive explanations, based for example on legal origins or political systems, as competing causes that explain more or less the variation across countries. But the salience of each institutional factor may again depend on what aspects of corporate governance we seek to explain—the factors leading to dispersed ownership may not be the mirror image of factors leading to blockholding, nor are the institutions most salient for ownership the same as those most salient for stakeholder involvement. If corporate governance itself is made up of diverse elements, then uncovering those differences at the level of a particular case, such as Germany or the United States, requires complex conjunctions of factors and causal explanations that are backward looking to how different factors combine (Jackson, 2001). Third, most empirical comparisons of corporate governance center on single aspects of corporate governance, such as blockholding or independent directors. These studies focus on the net effects of these variables across a wide range of countries on outcomes, often related to organizational performance. But different performance outcomes may be important in different institutional settings, thus complicating the discussion of effective corporate governance by allowing that different national practices may have different trade-offs. For example, the U.S. system is designed around the normative notion of shareholder value, whereas the Japanese model reflects a greater commitment to employee welfare (Jackson, 2005; Jackson & Moerke, 2005).

We believe that an optimal research design to examine corporate governance systems and corporate governance changes is by drawing on systematic comparisons and whenever possible historical explorations because it forces the researcher to identify similarities and differences and it offers a point of reference. In particular, we propose that the comparative method (Ragin, 1989) together with historical institutional analysis (Mahoney & Rueschemeyer, 2003; Skocpol, 1984; Steinmo, Thelen, & Longstreth, 1992) can help us discover conceptual and empirical relations among macro-societal variables through inductively oriented scientific investigation that "follows directly from asking questions about empirically defined, historically concrete, large-scale social entities and processes" (Ragin, 1987, p. 13). We return to this point in the last section of this article. Often, comparative corporate governance research adopts the "most similar case-comparison" method to select the national cases of inquiry. The method of agreement or "most similar cases" method selects cases with the maximum number of similar—if not identical—features, with the exception of the variable on the phenomenon to be studied (i.e., ownership

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structure or employee participation in governance decisions). The analytical goal is to identify the difference between cases that causes variance (Lijphart, 1971). The country case selections in Aguilera, Filatotchev, Gospel, and Jackson (2008), Jackson (2005), and Toms and Wright (2005) illustrate this research design.

Comparative Corporate Governance: Paradigms of Explanation

In this section, we examine how four different scholarly perspectives (economics and management, culture and sociology, law, and politics) that have actively engaged with corporate governance questions have contributed to explaining the similarities and differences across countries (the "macro question"). We identify their key strengths and weaknesses.

Economic and Management Perspectives

The bulk of corporate governance research around the world has been and continues to be inspired by agency theory (Dalton et al., 2007). Agency theory conceives the corporation as a nexus of contracts between principals (risk-bearing shareholders) and agents (managers with specialized expertise). Given the potential separation of ownership and control (Berle & Means, 1932), various mechanisms are needed to align the interests of principals and agents (Fama, 1980; Fama & Jensen, 1983a, 1983b; Jensen & Meckling, 1976). Shareholders are assumed to maximize returns at reasonable risk, focusing on high dividends and rising stock prices. Conversely, management may prefer growth to profits (empire building may bring prestige or higher compensation), may be lazy or fraudulent ("shirking"), and may maintain costly labor or product standards above the necessary competitive minimum. Agency costs arise because shareholders face problems in monitoring management: they have imperfect information to make qualified decisions; contractual limits to management discretion may be difficult to enforce; and shareholders confront free rider problems where portfolios are diversified thereby reducing individual incentives to exercise rights and creating preferences for exit choices (Eisenhardt, 1989).

Comparative corporate governance is usually conceived in terms of the mechanisms available to minimize agency problems (Shleifer & Vishny, 1997). These mechanisms generate a wide array of variables that have been compared across countries, including the structure of ownership, board structure, executive compensation, the market for corporate control, accounting rules, the audit process and role of gatekeepers, and so on. Depending on the presence or absence of such mechanisms, agency theory has identified at least three models of corporate control. If agency problems remain unresolved, corporate governance is characterized by managerial control (Berle & Means, 1932). Likewise, agency problems may be solved through blockholder control, where one or few blockholders retain tight control over the firm through

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concentrated ownership and are thus able to exert their influence over management. As shall be discussed later, much of the comparative literature is concerned with explaining the origins and effects of blockholding around the world (Morck, 2005). Finally, in countries with dispersed patterns of ownership, a model of shareholder control has emerged that relies on a number of different market-oriented mechanisms. Rules on accounting and disclosure support the role of independent members of the board who act on behalf of shareholders. Here, the market for corporate control plays a critical role through hostile takeovers aimed to disciplining the management of inefficient firms.

Agency problems thus reflect a trade-off between liquidity and control. In some countries, monitoring is performed by large shareholders having strong incentives for control but less liquidity. Elsewhere, fragmented shareholders have greater liquidity and risk diversification but little individual incentive to monitor. Later work on a broader selection of European countries distinguished between ownership concentrated among large blockholders such as families, banks, and corporations and the dispersion of share ownership that create markets for corporate control (Becht & Roell, 1999). Other scholars differentiate between insider control by incumbent management, employees, and suppliers versus outsider control by shareholders and outside directors (Maher & Andersson, 1999). Differences in ownership patterns are thus explained by levels of private benefits, but this factor alone begs the question of what determines the level of private benefits available to blockholders in different countries—a factor that we will discuss in relation to legal and political approaches in later sections.

Another perspective stressing economic determinants of corporate governance deals with the role of financial systems. This approach offers an institutional theory of the supply side of finance, where the critical variable is the capacity of the banking sector to engage in industrial finance (Aoki & Patrick, 1994; Cox, 1986; Deeg, 1999; Edwards & Fischer, 1994; Zysman, 1983). Early comparative work contrasted bank-oriented systems where banks played the central role in corporate monitoring through a combination of debt and equity stakes and capital market-oriented systems characterized by equity finance and the markets for corporate control (Berglöf, 1991; Edwards & Fischer, 1994). In particular, finance scholars have argued that ownership patterns may reflect different forms of corporate finance (Zysman, 1983), partly inspired by Gerschenkron's (1962) theory of latecomers to industrialization. In countries where banks have a strong capacity to provide external finance, ownership may remain more concentrated than in market-based financial systems. In turn, a complex literature relates the choice between banks versus markets to a variety of factors—regulatory differences (Roe, 1994), patterns of household savings (Vitols, 2001), state and private pension regimes (Jackson & Vitols, 2001), and even the so-called "late development effect."

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Research shows that bank-based finance may impact ownership in several ways. One indirect impact is to reduce the demand of firms for equity market funds and limit the number of initial public offerings (IPOs) (Bruton, Filatotchev, Chahine, & Wright, 2010; Casper & Whitley, 2004; Lane & Quack, 1999). A more direct impact may be when banks acquire ownership stakes in industrial companies for various strategic purposes of securing influence or as the result of corporate reorganizations (Morck, Nakamura, & Shivdasani, 2000; Vitols, 2005; Yanagawa, 2007). A last channel relates to the control of banks and the agency costs for minority shareholders in countries with bank dominance over industry (Franks, Mayer, & Wagner, 2006; Milhaupt, 2002; Ramseyer & Miwa, 2005). This literature thus postulates that the development of dispersed ownership in the United States reflects the fact that nascent relationships between banks and industry in the United States were curtailed politically (Roe, 1994).[3] State policies toward banks also explain the different corporate ownership patterns that Italy and Spain displayed post-WWII. Whereas the 1933 Italian Banking Law separated commercial and investment banking and further encouraged large Italian firms to develop pyramidal groups and self-financing, the Spanish state in the same period passed several laws to facilitate and expand further the close lending and ownership ties between banks and industrial corporations (Aguilera, 2003). It is thus interesting to study why banks came to play a more dominant role within equity markets in other countries (Franks, Mayer, & Miyajima, 2009; Franks et al., 2006; Jackson, 2001).

Other comparative studies of financial systems have extended comparisons beyond financial market regulation per se to look at the wider social systems regulating the relative supply and demand for different types of savings with respect to the risk, return, liquidity, and maturity profiles of financial assets (Jackson & Vitols, 2001; Vitols, 1996, 2001). Within the company sector, small firms generate demand for credit, while the large fixed costs of issuing equity restrict demand for equity to large firms. For households, high-income groups are the most supportive of market-based systems due to their greater capacity to invest and absorb short-term risks. Countries with greater income equality tend to have high savings by middle-income groups, who may be most supportive of bank-based systems. The state also impacts the demand for financial assets, particularly securitized debt, which competes with bank deposits as a low-risk form of investment. Finally, the method of pension finance shapes the demand for long-term investment in equities (Jackson & Vitols, 2001). In states with large and generous state systems funded through pay-as-you-go, private pensions get "crowded out" and limit the volume of private accumulation that fuels the growth of institutional investors who make diversified investments into the stock market.

On a cautionary note, the impact of financial systems on the actual funding of industrial investment should not be overdrawn. Comparing the aggregate

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flow of funds to industrial investment shows internal company sources to be the most important in both market and bank-centered cases (Corbett & Jenkinson, 1996). Equity finance made surprisingly low contributions in market-oriented countries, and the relative importance of bank finance was hard to demonstrate except for Japan.[4] Other measurements, such as balance-sheet comparisons, show German firms with surprisingly little debt and U.S. firms being highly leveraged (Rajan & Zingales, 1995). The more robust differences lie in the forms of monitoring associated with these financial systems and their impact on the distribution of rewards in corporate governance.

Beyond finance, an alternative economic perspective of corporate governance is offered by stakeholder theory. The stakeholder perspective sees the corporation as a set of relationships between multiple stakeholders with an interest in the firm and thus a broader set of goals to be maximized or satisfied (Freeman et al., 2010). Economic theory suggests stakeholder participation may be related to efficiency, based on models of team production, commitment, firm-specific investments, and risk sharing (Blair & Stout, 1999; J. Parkinson, 2003).[5] In particular, the firm-specificity of employees' human assets is often used to explain the diverse forms of corporate governance. To the extent that the firm contains a stock of firm-specific capital invested by employees, the board should not be seen merely as "agents" of the shareholders but as the trustees of stakeholders (Aoki, 1984; Blair & Stout, 1999). Theories of economic cooperation see employee "voice" as a way to increase trust between labor and management, facilitate investments, improve internal information flows, and create gains in dynamic X-efficiency (Leibenstein, 1966). Giving voice to employees lessens the need for both sides to specify terms and conditions of employment in advance. Participation thus supports additional reserves of flexibility within the organization. Interestingly, some observers have contrasted stakeholder corporate governance involving employees with an exclusively shareholder-oriented corporate governance (Kelly, Kelly, & Gamble, 1997).

Despite micro-theoretical foundations, only a few studies have attempted to build upon or extend these models. In her historical comparison of U.S. and German corporate governance, O'Sullivan (2000b) moves beyond this debate by developing a theory of organizational control focused not only on resource allocation, but also on the conditions of innovation within enterprises. Rajan and Zingales (2000) have similarly argued that the growing importance of human capital relative to physical assets within new innovative forms of enterprises should lead to a rejection of the agency theory view of the firm based on property rights over physical capital. Likewise, the firm-specific nature of human assets may be insufficient to have distinctive consequences for corporate governance (Aoki & Jackson, 2008). As an elaboration of stakeholder theory, Aoki and Jackson (2008) have examined a wider context of linkages between corporate governance and different forms of human

assets using the concept of essentiality. In short, the concept of essentiality is based on the idea that one stakeholder cannot increase its productivity by utilizing rights of control without the cooperation of another *essential* stakeholder (Hart, 1995). In this research, five modes of organizational architecture through different combinations of managerial and worker human assets are proposed: unilateral, bilaterally incomplete, symmetric, encapsulated, and reciprocal. Each mode corresponds respectively to a stylized corporate governance model: the traditional Anglo-American model, the German codetermination model, the insider model of Japan, the Silicon Valley venture capital model, and hybrid models.

Debates about the relative merits of the shareholder and stakeholder model remain. Agency theorists have criticized stakeholder theory on a number of grounds—too many stakeholders exist, their inputs may not be critical, stakeholder participation may lead to deadlocks in decision making, and the lack of a single objective function may undermine managerial accountability (Jensen, 2001; Sternberg, 1997; Tirole, 2000). Others see shareholder value as already taking into account stakeholder interests, as suggested by the terms "enlightened shareholder value" or "instrumental stakeholder theory" or "strategic corporate social responsibility" or "the good firm" (Campbell, 2007; Jones, 1995; Kay, 1995; Kelly et al., 1997). With some variants, these theories argue that satisfying stakeholders is morally desirable and makes good business sense, but the primary responsibility for the running of the firm should be vested in managers, and these should take into account stakeholders only to the extent that long-term shareholder value is created thereby—see debates in Gamble and Kelly (2001), Letza, Sun, and Kirkbride (2004), O'Sullivan (2003), Vinten (2001), and Yoshikawa and Rasheed (2009).

A final variation of economic and management theories seeks, in some sense, to offer a synthesis of the agency and stakeholder perspectives by placing these in a wider frame of the "varieties of capitalism" literature. Building on Aoki's pioneering work on how the various features of the Japanese firm are systematically interrelated (Aoki, 1988, 1994), a number of scholars suggest that different corporate governance models can be explained by strategic complementarities (Aoki, 2001; Milgrom & Roberts, 1994, 1995). For example, Soskice (1999) contrasts coordinated versus liberal market (uncoordinated) models of capitalism to show that each displays interlocking complementarities between institutions, such that each institution depends on the others in order to function effectively. Regarding corporate governance, patterns of ownership and employee participation are seen as being mutually interdependent and achieving a complementary institutional "fit." For instance, short-term finance requires quick entry and exit from business activities and "fits" with an industrial relations system that allows inexpensive hiring and firing of labor. The presence of complementarities across different institutional domains implies that institutions are not distributed randomly

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but are clustered into relatively cohesive types. Underlying this approach is a theory of comparative institutional advantage, wherein "the institutional structure of the political economy provides firms with advantages for engaging in specific kinds of activities" (Hall & Soskice, 2001a, p. 32).

In sum, the economics and management literatures offer a number of plausible explanations as to why different forms of corporate governance may have different comparative advantages. The literature draws on different underlying models of the corporation that specify separate dimensions of economic efficiency. If a single optimal set of arrangements could achieve maximum efficiency along every dimension, international diversity would remain quite puzzling.[6] Mainstream research has become increasingly agnostic about which arrangements are most efficient (Aguilera et al., 2008; Dalton et al., 2007). It also appears impossible to say a priori which dimension of efficiency will be most important in shaping corporate governance in a given case. National differences are therefore unlikely to be traced back to efficient adaptation along a single dimension.[7] The alternative is to accept efficiency as having multiple dimensions that cannot be ranked. Different countries specialize in different areas, and face different trade-offs. In this perspective, firms may adopt diverse models of corporate governance depending on an array of firm-level variables related to the life cycle of the company, the salience of critical resources such as external finance or human resources, and so on. While plausible and attractive, this type of approach remains incomplete in offering a consistent explanation as to why agency problems or stakeholder relationships would be addressed in such dissimilar ways across countries. As Aoki (2001, p. 2) observes, "…an important point is that game theoretic models can often have multiple solutions and/or yield solutions highly dependent on the specifications of the models. Therefore, the selection of a particular solution needs to be determined and substantiated from outside the model, using comparative and historical information." For this, we need to introduce a number of other perspectives based in culture, law, and politics.

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Cultural and Sociological Perspectives

A number of fundamental insights from the social sciences help us understand how culture may be related to cross-national diversity in corporate governance. Cultural approaches serve as an important reminder that economic decisions reflect not just "material" aspects of life and consequently are not based solely on rational choices made by individuals (Maurice & Sorge, 2000; Sorge, 1981). Corporate governance surely has a cognitive or "cultural" dimension related to the interpretative frameworks for actors to understand everyday situations. Still, much of the existing literature continues to adopt, perhaps unconsciously, a rather "primordialist" view of culture. Following Hofstede (1980, 2001) and others, culture is often conceptualized through the construction of national averages, which are used to create something akin to a personality profile of the

"average person" in a society. These latent propensities of individuals are then argued to assert some causal influence on economic organization. But cultural constraints operate diffusely and tell us little about how they are socially constructed, mobilized, and implemented as such.

Many early descriptive studies of corporate organization across countries described diverse forms of organization as embodying premodern aspects of their respective societies. For example, Japanese management practices are explained as expressions of older cultural preferences for harmony or group orientation (Abegglen, 1958; Nakane, 1970; Ouchi, 1981). In the field of international business, cultural explanations focus on the role of cultural norms and cognitive orientations influencing organizational practices, strategic decisions, and firm outcomes (G.H. Hofstede, 2001; House, Javidan, & Dorfman, 2001; Javidan, House, Dorfman, Hanges, & de Luque, 2006). G.H. Hofstede (1980) developed four cultural dimension indices based on 1966 data—power distance, individualism, uncertainty avoidance, masculinity and later on added long-term orientation. Kirkman, Lowe, & Gibson's (2006) have documented the huge impact of these cultural dimensions for studies in comparative management and cross-cultural psychology. It is interesting to note, that Hofstede has recently drawn on his own constructs to unveil that country dispersed ownership is significantly correlated with the Individualism Index (G. Hofstede, 2004) or that the archetypical business leader roles of successful business leaders across 15 countries are explained by national wealth and national culture (G. Hofstede, Van Deusen, Mueller, Charles, & Network, 2002).

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Comparative corporate governance researchers, particularly those looking at financial and accounting practices have also drawn on Hofstede's cultural distance indices. Some robust relationships have been identified between Hofstede's cultural indices and the nature of financial systems and financial behavior. For example, Chui, Lloyd, and Kwok (2002) rely on culture to account for cross-national variations in financial leverage after controlling for economic performance, legal systems, and financial institutions explanations. Chui and Kwok (2008) explain patterns of life-insurance consumption across 41 countries in a 25-year period also based on national cultural traits, and Kwok and Tadesse (2006) look at national financial architectures in terms of financial market-based versus bank-based, showing that countries characterized by higher uncertainty avoidance are more likely to have a bank-based system.

The role of culture has also been widely debated with regard to cross-national differences in accounting systems (Doupnik & Tsakumis, 2004; Gray, 1988; Salter & Niswander, 1995) and disclosure practices (Gray & Vint, 1995; Hope, 2003; Zarzeski, 1996). Han, Kang, Salter, and Yoo (2010) contribute to this research by exploring how both value systems (measured with Hofstede's cultural dimension indices) and institutional features (e.g., legal environment)

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might explain managers' earnings discretion across 32 countries. Drawing on 11 years of data and over 18,000 firms, they found that the cultural dimensions of uncertainty avoidance and individualism are significantly linked to the magnitude of discretion that managers exercise in reporting accounting earnings across countries, contingent on legal characteristics such as the strength of investor protection. This research has nicely bridged the finance and culture research.

In an effort to bring culture into the legal perspective, Licht (2001) explains national governance practices such as accounting information disclosure, self-dealing, insider trading, and executive pay as a function of cultural historical orientations embedded in all societies. More recently, Licht, Goldschmidt, and Schwartz (2007) have drawn on Schwartz's (1999) set of cultural value dimensions,[8] as well as G.H. Hofstede (2001), to explain differences across 50 countries on three basic social norms of governance: the rule of law, corruption, and democratic accountability. They found evidence supporting the thesis that cultural orientations influence governance practices. For example, they show that "the widespread respect for legal entitlements—a 'law and order' tradition—is associated with a distinct profile of cultural values. Hence, the rule of law is not a universal principle of equal importance regardless of cultural diversity" (p. 669). Similar findings are reported for perceived corruption, as well as democratic accountability. Without referring to Hofstede or similar schemes, other legal scholars have also taken up the question of examining how culture may shape and interact the boundaries of corporate law, for example by influencing the propensity and form of related party transactions (Roe, 2002a).

These various studies offer several distinct perspectives on how culture, as a set of informal institutions or practices, may interact with diversity in corporate governance—supporting, constraining, or substituting for formal institutions. First, some scholars see culture as *supporting* particular kinds of institutions. For example, the development of strong formal institutions in U.S. corporate governance has been interpreted as an expression of cultural norms of meritocracy rather than the particularistic ties found in bank-centered systems (Modigliani & Perotti, 2000). Second, drawing from the approaches to culture in international business research, high cultural distance is sometimes argued to crowd out or impair the implementation of some types of formal organization (Barkema & Vermeulen, 1997; Brouthers & Brouthers, 2001; Kostova, 1999; Kostova & Roth, 2002). Kwok and Tadesse's (2006) study of corporate financing offers support to this hypothesis. Last, some authors see cultural factors as a functional substitute in filling "institutional voids" characterized by "the absence of specialist intermediaries, regulatory systems, and contract-enforcing mechanisms" (Khanna & Palepu, 2006, p. 62). For example, strong informal norms may provide functional substitutes in promoting trust where strong legal norms are absent, such as in

post-war Japan (Milhaupt, 2001). Likewise, others have sought to explain ownership patterns based on the different role of informal institutions grounded in mutual trust and regional cultures in shaping financial transactions (Franks, Mayer, & Rossi, 2005; Franks, Mayer, & Wagner, 2005).

Similarly, culture has also been used as an important variable in studying the diffusion of governance practices across countries, and particularly from the United States (a market-oriented outsider model) to continental Europe (P.C. Fiss & Zajac, 2004, 2006) or Japan (Ahmadjian & Robbins, 2005). Djelic's (1998) book references explicitly the effects of national culture in receiving U.S. practices and its fear of Americanization. Buck and Shahrim (2005) build a translation theory to explain how executive compensation practices were imported into Germany and, in turn, organizations experienced innovation as they had to adjust these foreign practices to the German cultural values. And Haxhi and van Ees (2009) show the effects of national culture in conjunction with legal systems and economic institutions to account for the pace of global diffusion of codes of good governance.

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While cognitive and normative factors are important to corporate governance, using "culture" or "organizing logics" as a causal variable runs into numerous conceptual problems (Biggart, 1991; Herrmann-Pillath, 2010; McSweeney, 2002; Sorge, 1981). One issue concerns how one should interpret the dimensions of culture, such as "uncertainty avoidance." For example, Australians may avoid uncertainty by writing lengthy business contracts that specify many contingencies, whereas the Japanese may avoid uncertainty by doing business only with trusted known partners. A second issue is how culture might exert a causal influence on institutions, such as a social norm or particular legal regulation. Many studies invoke cultural factors based on observed correlations, but more work is needed to specify causal processes related to culture. Likewise, institutional theory views institutions as socializing agents and influencing identities. Just as institutions may reflect peoples' values, people learn to live with institutions and may (or may not) come to value them. Culture and institutions are historically intertwined in ways where it makes little sense to draw causal arrows between artificially divided cultural and institutional variables. A particular dimension of this problem involves the temporal aspect. If we assure that culture is something very long term and stable relative to particular institutions, then it becomes very difficult to explain institutional change. So while Hofstede continues to be used, the measures and their use as a time-invariant explanatory factor has been widely criticized as being outdated, not allowing for cultural changes over time and ignoring within-country variance (Erez & Earley, 1993; Sivakumar & Nakata, 2001).[9] Finally, invoking culturally ingrained values does not lessen the need for political perspectives on institutions, since actors propose rival interpretations of institutions and use *competing* cultural values to frame arguments for or against institutions. Thus the difficulties in positing such

relationships between culture and institutions suggest that social scientists have some burden to demonstrate the causal mechanisms behind these relationships, rather than being satisfied with correlations.[10]

Institutional theory within sociology has taken up the theme of cognition and ideas but sought to overcome the limits of more Hofestedian cultural analysis by grounding in a more specific framework of organizational ideologies. Such arguments draw upon the "new institutionalism" in sociology, which stresses the role of cognitive variables as being constitutive of institutional practices (Scott & Christensen, 1995; Scott & Meyer, 1994). These approaches share with older cultural theories the emphasis on social norms and the importance of organizational legitimacy, but go beyond arguments over national character to consider more deeply the social construction of meanings and diffusion of ideas. For example, Dobbin (1994) examined national differences in the organization of railroads (themselves, the earliest corporations) in the United States, France, and Britain. For Dobbin, national diversity is explained by differing cultural conceptions of the political order that were "teleologically reinterpreted" as models of order for the corporation. Here, the role of the U.S. federal government as an umpire between autonomous states was emulated within the market model of control over railways. Likewise, Fligstein (1990) has emphasized the emergence and change of different "conceptions of control" in the U.S. case. The main emphasis here is on the institutionalization of different cognitive and normative ideas of corporate governance, such as "shareholder value," which arise within organizational fields as they are defined by the state, but also other actors such as investors and managers themselves (Fligstein, 2001).

The cognitive and normative aspects of institutions are also taken up by Witt and Redding's (2009a, 2009b) research, who seek to fill the gap that Hall and Soskice (2001b, p. 13) left open when they wrote that "something else is needed to lead the actors to coordinate on a specific equilibrium and … what leads the actors to a specific equilibrium is a set of shared understandings about what other actors are likely to do, often rooted in a sense of what it is appropriate to do in such circumstances." Their focus is on the cultural underpinnings of different varieties of capitalism—where "culture" is defined as the social constructions of reality (Berger & Luckmann, 1966) and thus a process of making sense of the world in people's heads. Since institutions are humanly devised, understanding variation in institutions implies a need for understanding human action creating institutions. Such action, in turn, is patterned by cognitive models of how the institutional environment should look. To this end, Witt and Redding undertook ethnographic interviews with senior executives of large firms in Germany and Japan to show that despite both countries being categorized as "coordinated market economies," cross-national variation exists in the mental maps of senior executives (including their ideas of how the institutions of human and financial capital should look like). In

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particular, they demonstrate that senior German executives prefer a market economy tempered by social-security systems, while the Japanese express a preference for a collaboratively developed society with a state role providing general direction. This variation between the countries is important because it points to a source of variation within the CME group of countries, as well as continued varieties of capitalism.

In a follow-up ethnographic study (conducted previous to the global financial crises of 2008), Witt and Redding (2009b) show that German, Japanese, and U.S. senior executives have considerably different notions of the reasons for the existence of the firm in that: (1) U.S. executives strongly subscribe to shareholder value thinking, with the other stakeholders being secondary and representing means toward the end of producing shareholder value; (2) German executives emphasize the importance of serving society and balancing the interests of employees and shareholders. The main means toward these ends are production of goods and services; society benefits from the products, employees and shareholders from the profits. Finally, (3) Japanese executives focus on service to society and employees. The primary means toward those ends are happy customers and satisfied shareholders. The authors emphasize that it is important to note that the Japanese mental map is not the reversal of shareholder value thinking.[11] Neither German nor Japanese executives were positive about shareholder value thinking. While they recognize that shareholders are important stakeholders, they were not in favor of a strong focus on them. In sum, they conclude that executives in different countries pursue different kinds of goals for their firms and have different notions of appropriate means for achieving them.

Finally, even though the study of boards of directors has been pivotal in corporate governance and comparative research (Aguilera, 2005), a persistent weaknesses is that frequently the board is treated as a "black box" without paying much attention to its cognitive features. That is, not much attention has been paid to understanding from a comparative (cross-national and over time) perspective how decisions in the boards are made, how relationships evolve, and how conflict is resolved. This is an aspect that organizational sociologists and strategy scholars have not focused on much until recently. We are fortunate to count with a few studies focusing on opening this black box to explore the cultural or behavioral dimensions of corporate governance, and in particular of boards, inspired mostly by the work of Mace (1971). Although these studies emphasize the behavior of boards as cognitively active individuals interacting in groups and implementing processes for their decision making (Carter & Lorsch, 2004; Finkelstein & Mooney, 2003; Forbes & Milliken, 1999; Huse, 2007; Johnson, Daily, & Ellstrand, 1996; Minichilli, Zattoni, & Zona, 2009; Stiles & Taylor, 2001; van Ees, Gabrielsson, & Huse, 2009; van Veen & Elbertsen, 2008; Westphal, 1999; Zona & Zattoni, 2007), they have not yet taken the next step of introducing a systematic comparative

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analysis of boards embedded in different environmental contexts—although their models could be extended to the cross-national arena and empirically tested. For example, Huse (2007) states that there is not one single best design but that governance practices should be designed contingent on both organizational environment and organizational members, while trust (a key cultural feature) is found to be at the cornerstone of the relationships inside the board, as well as outside. In sum, it is clear that some significant strides have been made in understanding how meaning and discourse contribute to differences and similarities in governance practices and structures across countries, but it is also apparent that more systematic comparative research and culturally grounded accounts are needed.

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The Legal Origins Perspective and Comparative Approaches to Law

There is a rich literature in legal scholarship regarding how the legal system shapes different dimensions of corporate governance and in turn how national legal systems might explain cross-national differences in corporate governance models. Corporate law and investor rights constitute complex legal and economic constructions (Alchian & Demsetz, 1972) established through corporate law, bankruptcy law, and contractual articles of incorporation (Hansmann & Kraakman, 2001). Property rights define mechanisms through which shareholders (capital) exert control, such as information exchange and voting rights, and how control is balanced with managerial discretion. While countries are often distinguished as having strong or weak shareholder rights (La Porta et al., 1998), property rights shape capital specifically by establishing rights that favor different types of shareholders. For example, veto rights may allow small stakes to achieve disproportional influence, or voting caps may curtail the power of large stakes. Likewise, mandatory information disclosure favors small investors, whereas larger and more committed investors may enjoy advantages of private information.

One of the most influential perspectives within the legal paradigm focuses on the quality of corporate law in protecting (minority) shareholders. It is theoretically grounded in the origins of legal families' literature in law and economics, commonly referred as LLSV.[12] The argument in this perspective is that given the agency costs of ownership, the protections afforded by law, particularly to minority shareholders, have a large impact on ownership structures (La Porta, Lopez-de-Silanes, & Shleifer, 1999; La Porta et al., 1998). Their study was pioneering in creating a data set indexing these rights in 49 countries. In addition to the "law on the books," LLSV examine the quality of legal enforcement more generally. Their main hypothesis links poor investor protection to high ownership concentration. LLSV claim two reasons why ownership would be more concentrated in countries with poor investor protection. First, large blockholders may need to hold more shares in order to secure control over management. Second, small investors will only buy shares

at a discount, and this low demand will reduce the number of IPOs and sale of blocks on the open market.

A further dimension of the LLSV argument concerns the distinction between two families of legal origins—common law and civil law—where the former is based on jurisprudence and is characteristic of Anglo-American countries, and the latter is based on codes and is characteristic of Continental Europe. LLSV argue that common-law grants higher minority shareholders rights encouraging dispersed ownership through developed and deep financial markets, while civil law offers weak(er) minority shareholder rights and hence discourages ownership dispersion. Then, they sustain that there exist strong casual relationships between minority shareholder protection and a wide set of economic outcomes such as income per capita. It all boils down to the quality of law that is operationalized in terms of directorship rights, difficulty of starting a business, provisions concerning securities law, accountability, and so on.

LLSV has had a large impact on public policy and scholarship and generated extensive debate (Aguilera & Williams, forthcoming). We question how strong their empirical evidence is. LLSV evaluate their hypothesis through an ordinary least squares regression model examining the relationships between various legal indices and ownership concentration—the latter measured in terms of the cumulative stake of the largest three shareholders. Their index of anti-director rights shows that a 1.6-point increase on a six-point scale (the difference between common law and civil law averages) lowers ownership concentration by five percentage points. Meanwhile, mean concentration is around 20% in the United Kingdom and United States compared, for example, to 34% in France or the highest level of 67% in Greece. While the LLSV model reveals a significant impact of law on ownership, the legal story alone is a long way from explaining the diversity of national cases.

A main criticism of the LLSV argument on ownership dispersion is that good corporate law is compatible with a wide range of corporate ownership patterns (Roe, 2001). This criticism relies, in part, on differentiating between different types of agency costs. Some costs are related to stealing by either dominant shareholders or management. Here, the law may have a critical impact. But other agency costs are related to managerial shirking, which must be addressed through more effective monitoring. Here, the law, Roe (2001) argues, has little capacity to influence, but ownership concentration could minimize costs. Good law may reduce private benefits to blockholders through stealing, and consequently reduce the discount paid by small shareholders. While this may induce blockholders to sell shares, a countervailing effect may be to stabilize blockholding that reduces shirking. The net impact may be negligible or hard to predict in advance. Hence, it is indeterminate which aspect of agency costs will ultimately drive the corporate form at the level of countries. This fact may help explain why, despite the correlations,

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investor protection is neither a necessary nor a sufficient condition for dispersion. As an example, ownership dispersion is high in Switzerland and to a lesser extent in Germany, Ireland, and South Korea. Yet, these countries do not share similar levels of investor protection. Nor is investor protection sufficient for dispersion, as many countries with moderate investor protection do not exhibit dispersion—particularly the Scandinavian countries, Spain, Portugal, and to a lesser extent France.

Coffee (2005) provides additional evidence against the LLSV hypothesis (e.g., superiority of strong minority shareholder protection [MSP] systems) when he discusses the flaws in the legal accountability of gatekeepers in both systems and states "dispersed ownership is vulnerable to gatekeepers not detecting inflated earnings, and concentrated ownership systems fail to the extent that gatekeepers miss (or at least fail to report) the expropriation of private benefits" (p. 207). Similarly, Franks and Mayer (1990) posit that the U.S. dispersed ownership is an outlier and not the norm for ownership patterns. Later, these authors have undertaken a more systematic historical analysis based on unique firm-level data. Starting with the United Kingdom, Franks, Mayer, and Rossi (2009) demonstrate that investor protection had little impact on dispersion of ownership but that rates of dispersion of ownership were high even in the absence of investor protection. Rather, they uncover that dispersion was associated primarily with mergers, and these were facilitated through informal relations of trust instead of formal investor protection. To conclude, Milhaupt and Pistor (2008) are critical of the law and finance literature grounded in the legal origins perspective stating that "[s]ocial norms, self-regulatory organizations, best-practices, and other rules for market activity that are not legally enforceable have generally found little place in the analysis of the ways law supports an economy, particularly in the law and finance literature" (p. 21), and claim the need to take a deeper look at the role of law in the economy and in corporate governance across systems.

The legal families' perspective leaves much to be explained and it has led to novel research by Deakin et al. (Armour, Deakin, Lele, & Siems, 2009; Deakin, Lele, & Siems, 2007; Siems & Deakin, 2010). They have developed new indices following over time legal changes (1970–2005) in three key governance areas—shareholder, creditor, and worker protection—based on three overall systems: the so-called parent countries (the United Kingdom, France, and Germany); the world's most developed economy, the United States; and the world's largest democracy, India. For the most part, they do not find support that the two "legal families" (common law and civil law) explain cross-national and over time ownership patterns tied to the protection of minority shareholders and in turn the development of financial markets—the exception being worker protection. Hence, Siems and Deakin's (2010) main conclusion is that "legal rules are, to a significant degree, endogenous to the political economy context of the systems in which they operate" (p. 17). For a

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more in-depth discusion of the endogeneity of legal rules and distinguishing between different areas of law, see Deakin (2009). La Porta, Lopez-De-Silanes, and Shleifer (2008) have recently partly ratified some of their former strong claims and admitted their methodological limitations. However, particularly within the law and finance literature, it seems that the legal families' perspective is highly entrenched and it will not easily vanish.

The comparative institutional analysis perspective has also taken into account the country's legal system as a key institutional force whether it is to understand labor representation on the board of directors or the structure of corporate financing. Yet, as recently pointed out by Morgan and Quack (2010), previous research in corporate governance within the varieties of capitalisms (Hall & Soskice, 2001b) and business systems (Whitley, 1999) conceptualizes law as an institutional factor influencing economic action. However, they do not fully spell out the mechanisms by which legal forces influence and eventually change social relations among stakeholders. Others have been able to demonstrate more systematically how law shapes different market economies and in turn corporate governance systems (Casper, 2001; Gospel & Pendleton, 2003; Pistor, 2005; Vitols, 2001). These are, however, mostly exogenous views of the legal system as opposed to those of Edelman et al. (Edelman, 1990; Edelman & Stryker, 2005; Edelman & Suchman, 1997) who understand law as an endogenous force to economic action, continuously responding and interacting with social-order changes.

We think it is important to pay more attention to the reciprocal relationships between law and stakeholders as proposed by Milhaupt and Pistor (2008) in their "rolling relationship" between law and markets. They argue against the law and finance literature that "treating legal institutions as a black box implies that the core of any legal system, in particular the strategic use of law by key players, is ignored" (p. 23), suggesting that legal systems must be distinguished in terms of their organization (centralized/decentralized in relation to the law-making and enforcement processes), their functions (protective vs. coordinated), and in the context of the broader political economy (i.e., the degree of contestability). Likewise, Cioffi (2009) looks at whether shareholder protection is approached through ex ante transparency or ex post litigation, showing how these different approaches are embedded within the different legal institutions of the United States and Germany. This focus on legal practices goes beyond rival analyses, such as legal origin approach, by providing an understanding of how shareholder power is specifically institutionalized in imperfect ways and how international "transplants" of legal ideas like shareholder protection do not lead to a convergence of outcomes, as widely expected, but rather translate into very diverse sets of practices with sometimes unintended results.

Revisiting the agency theory and drawing from three legal views of the corporation (i.e., organic theory, contractual theory, and concession theory),

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Lan and Heracleous (2010) offer a refreshed view of agency theory based on four conceptualizations of legal models of corporate governance (i.e., managerialism, shareholder primacy model, stakeholder/communitarian model, and director primacy model). They argue that we need to rethink the agency theory in three radical ways: the shareholders are not the principle, but instead the corporation is the principle; the board is not the agent but an autonomous fiduciary; and the role of the board is not to monitor but to mediate among the different stakeholders. This revised legal view makes a fruitful contribution to agency research.

Finally, two emerging debates in the comparative law and governance literature are worth discussing. The first one concerns the effectiveness of soft law versus hard law—the one that is enforced by the state as opposed to voluntary codes. This distinction is relevant in the context of explaining why for example the United States has developed a hard law such as the 2002 Sarbanes–Oxley Act to improve governance accountability, whereas most advanced industrialized countries have relied on voluntary codes of good governance (e.g., Combined Code in the United Kingdom) based on "comply or explain" expectations (Aguilera & Cuervo-Cazurra, 2009). Aguilera and Cuervo-Cazurra (2004) demonstrate that the emergence of codes (as opposed to hard law) is explained by how difficult it is for countries to pass hard law, as well as the need to increase quickly the efficiency of capital markets (greater transparency and accountability) in order to attract domestic savings and foreign portfolio investments. In addition, there is evidence from psychological self-identification theory that when norms are jointly created through dialogue among the different stakeholders, once these norms are effective, they are less likely to be decoupled and more likely to be fully internalized by all stakeholders (Rupp, Williams, & Aguilera, forthcoming). However, it seems that there are some initial indications that some of these soft codes such as the German code of corporate governance are slowly shifting toward hard law.

"New Governance" is a second related debate to the soft-law initiatives and the degrees of state involvement in their enforceability. In effect, one of the profound shifts in global regulation and regulatory theory in recent decades is from conceptualizing international law as primarily an enterprise initiated by the state and instantiated in international treaties to an understanding of global regulation as a transnational framework composed of evolving hybrids, created by both public and private entities. The global regulation of multinational business entities' economic and social responsibilities is one area occupied by such regulatory hybrids, composed of networks of treaties, domestic law, voluntary standards and codes of conduct, certification procedures, best practices, and norms. The Equator Principles (EP) is an illustrative example of the reconfiguration of transnational governance (J. Black, 2008). This voluntary initiative is a common framework that global

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financial institutions have developed for evaluating and managing social and environmental risk in large privately financed development projects. It includes rigorous requirements for incorporating environmental and human-rights protections into management systems and loan covenants, and for including community consultations and dispute-resolution systems into project management. Another example of "new governance" is the principal-based accounting standards known as the International Financial Reporting Standards (IFRS), which are poised to take over the United States's GAAP (rule-based) systems. IFRS have been developed by the International Accounting Standards Board (IASB), which is a London-based independent, privately funded accounting standard setter, not connected to the government, which is in charge of developing and promoting the effective use of these accounting standards. The influence of this "new governance" is not trivial, as there more than 100 countries (including all of Europe) currently requiring or admitting IFRS reporting.

In sum, the legal paradigm has actively engaged in explaining cross-national comparisons by establishing the boundaries of property rights, defining the quality of law based on legal family origins, developing new constructs to measure governance across countries, and engaging in new forms of regulation such as soft law and new governance.

Political Explanations

Political approaches focus broadly on the political coalitions, party politics, and political institutions influencing corporate control. In response to explanations of the modern corporate form in terms of its economic efficiency, scholars from sociology, political science, and law sought to stress how the corporation is shaped by the exercise of political power. And in particular, it is illustrated how state intervention and politics represent a critical factor. Fligstein (1990) shows that the U.S. state shaped several critical junctures in the development of the U.S. Corporation through anti-trust legislation: the Sherman Act of 1890 targeted trusts and cartels, the Clayton Act of 1914 limited the development of inter-firm cooperation, and the Celler–Kefauver Act of 1950 restricted vertical and horizontal mergers. In each phase, the changing rules of the market led firms to adopt new strategies and structures, thereby transforming the prevailing institutionalized conceptions of corporate control. Meanwhile, Roy (1997) looks at the spread of the corporation as a legal form into the domain of industrial enterprise, stressing the importance of power and politics.

While early political approaches centered on the U.S. case, it was Roe's (1994) path-breaking book that extended the logic of the political paradigm to cross-national comparisons and thereby helped to frame the comparative debates over corporate governance. Roe's main focus is on explaining why the dispersed ownership and stock-market finance prevailed in the United States,

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whereas bank-based forms of finance and corporate control emerged in Germany and Japan. Most of his analysis deals with the unique development of banking and securities market regulation in the United States, such as the Glass–Steagall Act and other rules emerging in the 1930s. The regulatory divide among systems was a crucial critical juncture. But this legal comparison is only a first step toward Roe's main goal in seeking to explain the political factors that shaped regulation: public mistrust of large corporations and the ideology of Progressivism favoring the fragmentation of financial institutions, as well as interest group politics and the Federalist structure of American politics. These factors, Roe hypothesizes, were weaker in Japan and Germany—leading to the dominance of banks. Several other contributions support the idea that the regulatory divide of the 1930s marked a turning point where different financial systems diverged to become more market or bank oriented (Rajan & Zingales, 2003; Vitols, 2001).

Roe's (2003) subsequent attempts to generalize his political arguments more systematically across a wider range of countries have also proven novel. The central intuition behind comparative political theory is that politics impact managerial agency costs—by shaping the degree and form of competition, or by influencing managerial loyalties to different stakeholders. Roe's (2003) main proposition is a "political theory" stated as: "strong social democracies widen the natural gap between managers and distant stockholders, and impede firms from developing the tools that would close up this gap." In particular, Roe finds that concentrated ownership is highly correlated with the strength of left-wing or social-democratic political parties. Left parties do not favor blockholding per se, but they do seek to promote employee welfare. The central argument is that increased employee protection or giving rights of codetermination to employees raises the agency costs faced by shareholders. The logic is that managers will be harder to control, since employee interests are often aligned with the interests of unconstrained managers to expand the size of the firm, avoid risk, protect insiders from the risk of takeover, and limit painful restructuring. Social-democratic politics protect employees from being laid off, and give employees more rights to resist change that would be in the interests of shareholders. By making it hard for dispersed shareholders to control managerial agency costs, small shareholders are less likely to buy shares, and large blockholders are less likely to sell their stakes. Concentrated ownership remains as a counterweight to balance employee power. An interesting knock-on effect is that codetermination may also make concentrated ownership more politically acceptable, reducing demands for more fragmented forms of finance. Roe explores this argument through some direct measures of left-wing political power, but also other related measures such as employee protection, government intervention, and restriction of competition—features he associates with social democracies.

Pagano and Volpin (2005a, 2005b) have formulated an interesting variation of a political model by introducing the possibility of cross-class coalitions and examining the influence of political systems in mediating outcomes. Here, small shareholders ("rentiers") want strong shareholder protection and weak employment protection, whereas employees want strong employment protection and either strong or weak shareholder protection depending on whether they also own shares. Entrepreneurs (e.g., owner-managers, blockholders) may prefer weak protection for both groups. In their model, Pagano and Volpin (2005b) see political outcomes regarding corporate governance as being strongly shaped by whether the electoral system has proportional representation or majority rules. They argue:

> proportional voting pushes political parties to cater more to the preferences of social groups with homogeneous preferences, that is, entrepreneurs and employees. This is because under this voting rule the additional mass of voters that can be attracted by shifting a party's platform is greater if the shift favors a homogeneous constituency. Under a majoritarian system, by contrast, there is keen competition for the votes of the pivotal district, because this is enough to win the elections. In our model, the pivotal district coincides with that dominated by the residual group, precisely because it is not ideologically committed to either party…. (p. 1009)

The consequence is that proportional voting leads to cross-class compromises, based on an exchange of high employment protection for workers and low shareholder protection for entrepreneurs. In short, corporate insiders may form a political coalition leading to the exclusion of outside shareholder interests. However, the opposite is true in majoritarian systems, where political parties cater to the median voter groups such as small shareholders, unemployed or self-employed persons may prefer weak employment protection and stronger shareholder protection.

Gourevitch (2003) and Gourevitch and Shinn (2005) have extended the political and coalitional approach even further. Notably, they largely accept the notion from Roe that agency costs drive ownership patterns and that politics shapes corporate governance largely through agency costs. The theory proposed by Gourevitch and Shinn also shares two features central to the Pagano and Volpin model. First, drawing on Höpner (2001) and Aguilera and Jackson (2003), they see as pivotal the possibility of cross-class coalitions between owners, managers, and workers. Second, they emphasize the critical role of the political institutions that aggregate and represent those interests. The main variable here concerns consensus versus majoritarian systems. Despite these similarities, a major conceptual innovation concerns the role of preferences. Previous authors treat the preferences of workers and shareholders as being opposed, and their power relationships exist in an

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essentially zero-sum constellation. Meanwhile, Gourevitch and Shinn provide an alternative formulation whereby workers and shareholders may share common interests in promoting transparency and accountability of management, and managers have greater independence in siding with either shareholders or workers, depending on a number of factors.

Rather than stressing a priori objective functions, the authors allow more latitude for a contextual and historically driven view of how actors perceive and strategically pursue their interests vis-à-vis corporate governance. Here, the interests of social classes may differ according to industrial sector or exposure to international competition, hence raising the possibility of brokering diverse and stable political compromises. Thus Gourevitch (2003) notes that political alignments change and countries may move between left and right over time. Likewise, their model stresses the power dimension to a greater extent, since different outcomes are possible depending not only on what coalitions emerge, but also who wins. The model thus sketches out three possible sets of coalitions (owners and managers vs. workers; managers and workers vs. owners; and owners and workers vs. managers), and two possible outcomes in terms of which coalition "wins"—thus resulting in six political coalitions and outcomes (see Table 1). This approach to politics resonates with a number of other models of corporate governance based on stakeholder coalitions (Aguilera & Jackson, 2003; Jackson, 2000; Jackson, Hoepner, & Kurdelbusch, 2005).

The political model advanced thus stresses two components—preferences plus political institutions. Political institutions play a critical role in determining the winners among different coalitions. Majoritarian systems have plurality electoral laws, two-party competition, and one-party control of government. Meanwhile, consensual political systems have more proportional

Table 1 Six Alternative Coalitions and Outcomes

Cleavage	Model	Coalition	Outcome for share ownership	Examples
Class conflict	Investor model	O + M > W	Diffusion	South Korea
	Labor model	O + M < W	Blockholding	Sweden
Cross-class coalitions	Corporatist	O < M + W	Blockholding	Germany, Japan
	Oligarchy	O > M + W	Blockholding	China, Russia
	Managerialism	O + W < M	Diffusion	United States, United Kingdom, France
	Transparency coalition	O + W > M	Diffusion	Chile, Malaysia

Adapted from Gourevitch and Shinn (2005), p. 23: O = owners; M = managers; W = workers; X > Y: X's preferences prevail in the political struggle over CG issues.

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representation, multi-party competition, and coalition governments. The main argument relates risk taking and political stability. The possibility of large policy swings in majoritarian systems may undermine the commitments necessary to make long-term investments and will undermine committed ownership and labor-management cooperation. Consequently, majoritarian systems favor corporate outsiders, and thus are associated with greater investor protection and higher shareholder dispersion, through either the investor model or transparency model. Meanwhile, consensual systems strongly favor the corporate compromise model, lesser protection of small shareholders, and thus blockholding.

Cioffi and Höpner (2006) also emphasize the possibility of “paradoxical” interest coalitions, whereby workers and center-left parties become critical agents promoting shareholder-oriented reforms. Here centre-right parties close to the business elite favor a more laissez-faire approach that may benefit the interests of managers at the expense of shareholder protection. Meanwhile, centre-left parties may unite workers with other groups interested in promoting greater transparency and accountability in corporate governance. In particular, the authors explain the corporate governance changes in Germany, France, and Italy, where a corporatist model shifts with the emergency of a “transparency coalition” in the terminology of Gourevitch and Shinn (2005).

A number of disagreements and debates have arisen about how political theories apply to different cases. One critical factor concerns the identity and power bases of blockholders, which may differ substantially. P.D. Culpepper (2007) shows that the Italian case was characterized by a centre-left transparency coalition promoting legal reform, but this reform had little influence on patterns of blockholding at the firm-level due to the absence of complementary factors, such as the presence of foreign institutional investors, who would reinforce shifts in power away from existing corporate insiders. Schnyder (forthcoming) argues that political theories would predict a high stability of blockholding in the Swiss case due to the absence of centre-left transparency coalitions and the consensual nature of the political system, but that Switzerland underwent major corporate governance reform due to the changing preferences of blockholders themselves. Finally, work on the European takeover directive shows how the relative salience of dispersed or concentrated ownership shape party political positions toward the liberalization of M&A markets in Europe (Callaghan, 2009; Callaghan & Höpner, 2005; Clift, 2009).

Another critical factor refers to the nature of political agency and to the role of the state. Tiberghien (2007) highlights how policy elites were much more proactive in supporting pro-shareholder reforms in France and South Korea, but much more cautious in Japan and Germany. These differences are not simply due to formal political institutions or interest groups, but come

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down to the more dynamic role played by policy entrepreneurs. Likewise, scholars have long noted the particularly active role of the European Union promoting financial market liberalization guided by a particular notion of market integration (Rhodes & van Apeldoorn, 1998). Other studies have pointed out the growing trend for the state to relinquish sovereignty and delegate a growing number of regulatory roles and functions onto private agencies, as in the case of corporate governance codes or the use of professional standards in accounting and audit process (Overbeek, Van Apeldoorn, & Nölke, 2007). Meanwhile, looking beyond the boundaries of the OECD countries, the role of the state in corporate governance is likely to be very different. Gourevitch and Shinn (2005) find affinities between blockholding and authoritarian political regimes. Meanwhile, the low capacity of the state to set and enforce the rule of law creates institutional voids in relation to corporate governance, which are shaped by and may also shape the scope for corruption (Wu, 2005).

Some strands of political literature dovetail with more sociological approaches by stressing the role of ideas and ideologies in guiding state action. Jackson (2001) emphasizes the importance of ideas among state elites in Germany and Japan in framing policy debates over corporate governance within the wider political context of industrialization, conservative social reform, and post-war democratization. These more sociological approaches bring cognitive frames and value commitments back into the political approaches to studying corporate governance. Similarly, the persistence of liberal and shareholder conceptions of the firm and absence of stakeholder rights in U.K. company law were shaped in decisive points by the ideological perspectives of the Labour Party, which viewed the company as an adversarial arena to be regulated through industrial relations rather than changing the internal structures of the firm (Clift, Gamble, & Harris, 2000).

In sum, political approaches have made a significant contribution to the comparative corporate governance debate. These studies show that cross-national diversity is not explained by the evolution toward a single "efficient" form of corporate governance, nor are differences explained by inert, slow-moving cultural factors or legal origins. Rather corporate governance evolves through a dynamic process of competing interests and competing interpretations of institutionalized norms, processes shaped by, but not fully determined by, political institutions.

Existing approaches also face serious limitations. First, no single political theory or set of factors fully explains the range of outcomes across OECD countries, let alone a more extended set of developing and emerging market economies. Empirical testing of these theories has relied largely on statistical correlations based on very small samples of advanced industrialized nations. This approach is methodologically very problematic. Most authors recognize this and combine their approach with short case studies meant to make

plausible the causal mechanisms operating in different cases. Still, existing studies have fallen short of a systematic cross-case comparative analysis of similarities and differences among key causal factors in order to show how different factors combine in explaining the diversity of outcomes. A second related point is that different theories offer rival interpretations of key cases such as Germany. For example, while Roe (2003) stresses the influence of social democracy on blockholding, other authors point to historical causation in the reverse direction where codetermination evolves as a political demand to counterbalance the political abuse of economic power by large blockholders (Jackson, 2001). In some sense, political factors and corporate governance coevolve, as stressed in some recent contributions (Aoki, 2010; Belloc & Pagano, 2009).

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Comparing the Dynamics of Institutional Change in Corporate Governance

The theoretical paradigms related to economics, culture, law, and politics each offer different insights for explaining similarities and differences among corporate governance patterns across countries (the "macro question"). But the discussion in the previous section equally demonstrates that no single perspective adequately explains cross-national diversity on its own. In this section, we take this analysis a step further by asking what insights these theoretical perspectives offer for understanding stability and change. Most comparative scholars have stressed the possible path dependence of corporate governance arrangements over time. Still, path dependence is explained by different mechanisms across theoretical paradigms (see more generally Sydow, Schreyögg, & Koch, 2009). Here, we focus on two issues central to corporate governance dynamics—the structure of corporate ownership and the role of labor, the latter because it has often been neglected. First, we suggest that the different identities and interests of shareholders (and particularly blockholders) are insufficiently taken into consideration by broad macro-level approaches explaining the diversity of corporate governance across countries. Second, we argue that the role of labor is likewise shaped in diverse ways contingent on the particular firm-level forces defining employee influence and the resulting interactions with shareholder constituencies. In doing so, we aim to show that theories attempting to answer the "macro question" of comparative corporate governance must enter in greater dialogue with studies focused on the "micro question" of economic effects on various actors in order to account better for cross-national differences, but also to uncover the dynamics of institutional change.

The Changing Structure of Corporate Ownership

Ownership structure has been one of the central topics in comparative corporate governance studies. The key dimensions are who owns the firm, how much do they own (control), and what are the rights of these different owners.

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Most firms in the world have concentrated ownership structures. Moreover, large blockholders have been able to enjoy enhanced control rights through deviations from the one-share-one vote principle, such as dual-class shares, state intervention, pyramidal groups, credit cooperatives, and conflicts of interest between majority and minority shareholders. Recent research also suggests that the simple dichotomy between concentrated and dispersed ownership patterns is not as indicative of ownership structure as claimed in the extant literature due to the rise of foreign institutional investors, the decline of blockholding in certain countries, and the emergence of new types of investors such as private equity, hedge funds, and sovereign wealth funds. While only a handful of systematic studies compare corporate ownership across countries, even fewer look at over time trends—in great part because until very recently ownership data were not readily available or electronically distributed.

Business historians were the first ones to trace historic patters of corporate ownership. They were mostly concerned about how firms were becoming increasingly concentrated within industries and introducing new types of owners to the existing state or family dynasties (see e.g., Chandler, Amatori, & Hikino, 1997). Morck's (2005) edited book investigates historical ownership evidence from an agency perspective and draws heavily on the law and finance literature. In asking why different parts of the world display such diverse ownership structures and varieties of capitalism, he considers: "how did some economies come to entrust the governance of their great corporations to a handful of old moneyed families, while others place their faith in professional CEOs?" (p. 4). His answer emphasizes the constraints imposed *by different institutions*. In the rest of this section, we discuss how different theoretical paradigms have approached explanations to comparative corporate ownership and demonstrate the need to integrate these perspective better to achieve a more comprehensive (institutional) explanation of ownership complexities.

What do economics, law, culture, or politics tell us about institutional change? Some scholars have argued that patterns of ownership around the world are likely to converge on a single model. Famously, Hansmann and Kraakman (2001) declared the "end of history" for corporate law and predicted the convergence on a U.K.–U.S.-style shareholder model of the firm. Others suggested that while corporate law was unlikely to change for political reasons, functional convergence of corporate governance systems would occur nonetheless as firms voluntarily adopted shareholder oriented practices through mechanisms such as international cross-listings in the United States (Gilson, 2000). Meanwhile, most comparative scholars have emphasized the potentially path-dependent nature of corporate governance arrangements (Aguilera et al., 2008; Guillen, 2000). If corporate governance were to change

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rapidly toward more efficient forms, cross-national diversity would be unlikely to exist and persist over long periods.

As noted in the previous section, economics views ownership structure largely in terms of agency costs and the degree of "private benefits" available to large blockholders in different countries. How have these changed over time? A series of carefully done studies exist comparing cross-national ownership and control patterns. Pedersen and Thomsen (1997) examine the ownership patterns across 12 countries in Europe to show that there are substantive differences raging from widely dispersed ownership in the United Kingdom (no single owner holding more than 20%) to countries with exclusively concentrated ownership such as Austria and Italy. Claessens, Djankov, and Lang (2000) show from a sample of 2,980 firms in nine East Asian countries that voting rights frequently exceed cash-flow rights via pyramid structures and cross-holdings, as well as majority control by a few families. Barca and Becht's (2001) edited book provides a systematic analysis of the separation of ownership and control in nine European countries (Austria, Belgium, France, Germany, Italy, Netherlands, Spain, Sweden, and the United Kingdom) and the United States in the 1990s. They first show that a few large firms in Europe were widely held, and second that even within Continental Europe there exist different types of owners granting distinct shareholder rights and displaying remarkably diverse ownership structures from pyramidal groups to large state-owned firms. Despite some exceptions (Aoki et al., 2007; G.F. Davis & Mizruchi, 1999; Höpner & Krempel, 2003), many studies find surprising stability of ownership concentration on aggregate. This stability is often explained with reference to the path-dependent nature of corporate structure—in particular, initial ownership structures give some parties both incentives and power to impede change (Bebchuk & Roe, 1999).

The legal paradigm has also been argued in terms of path dependence. LLSV's primary claim is that legal families of common or civil law directly shape particular patterns of ownership (and a wide range of other features of the political economy), thereby raising a problem of endogenous outcomes. In other words, LLSV (La Porta et al., 1999) state that the path of corporate governance systems was determined by basic legal structures that were installed many years before corporate law even emerged. Legal families were determined either involuntarily (e.g., a result of colonization) or due to other long-term historical factors, justifying that "the legal family can therefore be treated as exogenous to a country's structure of corporate ownership" (p. 1126). But the LLSV's causal mechanisms linking ownership to legal family is based on the strong correlation between legal family and their index of investor protection presenting an essentially deterministic view of corporate governance.

As discussed in the legal section, Deakin et al. (Armour et al., 2009; Siems & Deakin, 2010) have dismantled some of the critical arguments put forth by

LLSV—in addition to developing new indices with which to compare countries' legal systems. First, they show that the legal origin argument does not explain the level of MSP because civil-law countries are catching up quickly, particularly since the 1980s, when there seems to be a convergence in the level of MSP across countries—although they clarify that it is mostly regarding the protection of shareholders from directors and mangers and not as much about the protection of shareholders from other shareholders (Lele & Siems, 2006). Second, Armour, Deakin, Sarkar, Singh, and Siems (2009) are able to reject empirically the legal origins hypothesis that there is a linear relationship between the level of legal minority shareholder protection and financial market development, and instead they uncover an inverted U-shape relationship. This body of literature suggests a more variable relationship between legal origins and corporate law on one hand, and between corporate law and corporate organization on the other hand.

Other approaches have trouble explaining the dynamics of changing ownership patterns as well. Cultural approaches have emphasized the relative stability of culture during the long-term, and thus it seems unlikely that changes in ownership patterns are to be accounted for by the growth of equity culture or shifts in social values over the period of several years (however, see the very valuable discussion in R.P. Dore, 2000). The political paradigm of corporate ownership as discussed in the previous section provides a potentially more dynamic view of change in corporate governance, whereby changes in ownership structure reflect wider changes in corporate law and the changing power relationships among social groups.

Institutional Change, New Actors, and the Dynamics of Ownership. According to the Federation of European Securities Exchanges (FESE, 2008), European publicly traded firms have increasingly shifted from domestic ownership to foreign investors' ownership, particularly in Germany, the United Kingdom, and France, with decreasing ownership presence from domestic fund managers and banks. This trend leads to new adjustments by both the foreign owners to the domestic governance system, as well as for the domestic firms' relationships with the expanded owners who might request new governance practices and might have new strategic interests on the domestic firms. But central to the political perspective on change is the understanding that shareholders do not constitute a homogeneous block, and the identities, interests, and policy agendas of shareholders may themselves change over time. Here, we argue that theories of comparative corporate governance must also be anchored in a more subtle understanding of how different owners exert power and influence at the level of the firm (D. Vogel, 1989; S.K. Vogel, 2006), and shifts in the preferences of powerful actors in response to changes in wider market and social conditions (Schnyder, forthcoming). Put differently, theories aimed at explaining the "macro question" of

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corporate governance must be better grounded in theories and evidence inspired by the "micro question" of corporate governance—namely, how actors at the level of the firm define their identities and interests in relation to these structures. This suggests adopting a more actor-centered perspective on institutions and greater attention to the diverse identity and interests of different blockholders, transnational actors, and new actors.

To illustrate how changing identities and interests of actors influence the dynamics of corporate ownership, we will discuss three issues: (1) the role of the state in influencing corporate ownership, (2) the role of foreign institutional investors, and (3) the increasingly dominant new passive owners, the so-called Sovereign Wealth Funds (SWFs). Other issues that would illustrate the forces of politics and global markets are business groups (Feenstra & Hamilton, 2006; Guillen, 2002, 2003; Keister, 2000, 2009; Yiu, Lu, Bruton, & Hoskisson, 2007) and the new market for corporate control (Callaghan, 2009; P. Culpepper, 2010; Höpner & Jackson, 2006).

First, states have multiple dimensions and different capacities to influence corporate governance either directly or indirectly. States intervene directly in the economy when they are owners of firms, as well as when they decide to privatize state-owned firms. Ownership changes from state ownership to non-state ownership are important to document, particularly outside the United States where we have observed striking transformations in the last 20 years. An example is the post-socialist gradual economic and societal changes in Central and Eastern Europe. After the fall of the Berlin Wall in November 1989 and the collapse of socialism, Central and Eastern European countries transformed from planned economies to different models of transition to market economies and in turn market economies in which the critical driver was the withdrawal of the state and the conversion of collective ownership into private property (Bandelj, 2008; Spicer, McDermott, & Kogut, 2000; Stark, 1996; Stark & Bruszt, 1998). The gradual and complex transformations in the corporate governance systems of these post-socialist countries are documented and contrasted with Western Europe in Federowicz and Aguilera (2003). It is remarkable to observe how these countries' political regimes (and hence the state) chose different paths to change, which in turn directly influenced whether firms become mostly owned by former firm managers, were sold to foreign hands, or were broken up and traded in the stock market. Of course, changes in governance practices were accompanied by diverse degrees of foreign openness and socially constructed justifications for and against foreign direct investment (Bandelj, 2008). These resulted in models of post-socialist economic organization reflected not only in their firms' ownership structure following different methods of privatization (Stark & Bruszt, 1998), but also in their industrial relations systems (Aguilera & Dabu, 2005).

Changes in ownership are also related to the changing role of the state more generally, and the promotion of capital market liberalization. Looking at

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the EU, Enriques and Volpin (2007) have revisited the discussion on European ownership structure and shareholder rights focusing on France, Italy, and Germany in contrast to the United States. They conclude that significant reforms at the European level, as well as at the country level, have led to important governance changes to "improve internal governance mechanisms, empower shareholders, enhance disclosure, and strengthen public enforcement" (p. 127). Many rules once favoring blockholders have converged substantially on one-share-one-vote principles (Deminor Rating, 2005). And policy measures have been undertaken in countries like Germany to curtail directly the influence of banks and limit the powers of large blockholders (Ziegler, 2000).

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Transformations in the global regulatory environment for financial markets and resulting "financialization" of the corporate economy (e.g., securitization of financial markets) have been associated with a profound shifts in corporate ownership through the rise of new types of shareholders (G.F. Davis, 2009; R. Dore, 2008). While most studies focus on the static comparison of concentrated and dispersed ownership patterns, less attention has been given to the fact that various investors (e.g., banks, pension funds, individuals, insurance companies, hedge funds, private equity, etc.) possess different identities, interests, time horizons, and strategies. Shareholders are themselves often organizations governed by institutionally defined rules. Moreover, shareholder interests may be interdependent in complex ways, since market actors may pursue different sorts of investment strategies. The emergence of new actors and changes in investors' strategies and the use of new financial instruments raises fundamental questions regarding the potential non-unanimity of shareholders interests, the related notion of "shareholder value," and the agency relationships (Bradley, Schipani, Sundaram, & Walsh, 1999). Many of these phenomena are most actively being discussed within the literature on new "social studies in finance" (Beunza, Hardie, & MacKenzie, 2006; MacKenzie, 2007) and the economic sociology of markets (Beckert, 2003; Fligstein & Dauter, 2007), but remain sadly divorced from debates over corporate governance. Here, we note that firms are increasingly being populated by two new types of owners: foreign institutional investors and SWFs, each with their particular sets of interests on the firm, as well as strategic modes for participating in the firm. We discuss them in turn.

Institutional investors have become significant owners since the 1990s (G.F. Davis, 2009; Useem, 1996), initially in the Anglo-American markets and now across almost all corporate governance systems. It is, however, critical to understand that these owners behave differently across countries guided by their capacities to intervene, as well as their strategic goals. Goyer (2010a) shows that short-term institutional investors have different strategies contingent on other corporate governance dimensions, as well as institutional environments. In particular, he is able to demonstrate that short-term institutional investors

prefer investments in French firms relative to their German counterparts. He argues that the institutional concentration of power in the CEO in France makes it easier to restructure the companies in a faster way than in Germany where restructuring schemes are negotiated. P. Culpepper (2010) discusses how the capacity of owners to intervene in the firm was contingent on the managerial power granted to managers and the strength of labor organizations across countries.

An analysis of the strategy of diversification of institutional investors outside the United Kingdom/United States requires the provision of a sophisticated differentiation between categories of institutional investors (Clark & Wójcik, 2007; Goyer, 2006). Institutional investors differ along their process of selecting companies, financial compensation of fund managers, and portfolio turnover. These differences in turn impact their patterns of investment when stepping outside their home market. For instance, Goyer (2010a) highlights the differences between short-term institutional investors (hedge funds; mutual funds with turnover strategies less than 24 months) and longer-term investors (mutual funds with turnover strategies more than 24 months) when investing in France and Germany—the Continental Europe's two largest economies. The investment allocation of longer-term institutional investors does not exhibit any variation when investing in these two countries. Their strategy of diversification fits rather well with the high quality of law/contract enforcement in these two countries (Roe, 2002b). However, Goyer (2010a) also shows that short-term institutional investors have invested twice as much in France compared to Germany, and argues that that this is due to the fact that short-term institutional investors are primarily concerned about portfolio companies implementing shareholder value measures in a rather quick fashion given their high portfolio turnover and the structure of fund manager compensation. Furthermore, Goyer suggests that the institutional concentration of power in the CEO in France makes it easier to restructure companies in a faster way than in Germany where restructuring schemes are negotiated.

SWFs are an emerging new type of shareholder, closely tied to the financialization society and the internationalization of markets (Gilson & Milhaupt, 2008; Pistor, 2009b). These are government-owned investment funds typically having assets under management larger than all hedge funds and private equity combined (G.F. Davis, 2009, p. 182), and which in recent years have become very aggressive in the percentage of assets owned on Wall Street—and include some high-profile bank rescuing (post-mortgage crises), as illustrated in cases such as Morgan Stanley, Merrill Lynch, and Citigroup. The first one was Kuwait Investment Authority drawing from oil revenues in Kuwait, and the current largest one is Abu Dhabi Investment Authority. There are two issues surrounding SWFs. First, SWFs are low key and generally passive owners or monitors. However, given their substantial stakes in the

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firms they invest, there is some potential political concern that a foreign government (e.g., through a Chinese firm or a middle-Eastern government fund) might own a strategically important U.S. firm. Second, since little international regulation exists on transnational governance and global financial markets, if problems and irregularities emerge, it will be difficult to bring them to court. Pistor (2009a) shows how SWFs have been key brokers in creating a network of global private–public equity ties.

To conclude this section, we would like to remark that comparative ownership research should probably pay greater attention not only to owners with a clear role in the firm, but also become more sensitive to the complexities of roles and interests that some organizations embrace beyond the traditional for profit stock-corporation. Organizational scholars have looked beyond the classic public firm as defined by Berle and Means (Mizruchi, 2004)—where there is a sharp separation between the owners and the managers—and have examined the more complex relationships between the participants in loosely coupled organizations such as professional firms (Empson, 2007; Weick, 2009). The tension in the nexus of contracts (or organization) is well defined by Fama and Jensen (1983b) when they discuss explicitly the separation between decision management, decision control, and residual risk bearing not only in large open organizations, but also in large professional organizations, financial mutuals, and nonprofits such as the Roman Catholic Church. It is worth pointing out several examples: in the cases where the owners are also the employees, they constitute a limited partnership (e.g., law firms); in the cases where the owners are also the suppliers or customers, they constitute a cooperative (i.e., Mondragon); and in the cases where the owners are also the consumers or residual claimants, they constitute a mutual company (i.e., insurance firms). These firms where owners share another role such as managers within the firm (limited partnerships and limited liability companies) raise important questions regarding how control is exercised, how risk is handled, and how contracts are defined (Ribstein, 2009). For example, an insurance-policy holder might consider a set of risks that could be dramatically different from the risks that a manager in an insurance firm might take if he or she is not the holder of the insurance policy. Lastly, it is critical that we continue to be aware of the communities in which organizations are embedded, as demonstrated in a recent study by Schneiberg, Goldstein, and Kraatz (2010) on the organizational shift of the U.S. saving and loan industry from community-based mutual banking to stock corporations.

The Role of Labor in Corporate Governance: Forgotten or Misunderstood?

Much research on corporate governance, inspired by agency theory, has largely neglected the potential role of labor. Comparative analysis has now confirmed the fact that employees do play an important role in corporate governance—but scholars remain strongly divided upon the potential role of

employees. Corporate governance is increasingly seen as an independent variable facilitating or constraining patterns of human resource management and industrial relations—or conversely, labor is seen as an independent variable influencing patterns of corporate ownership and finance.

An unlikely consensus exists among scholars from different disciplines that the power of shareholders and employees prevails in a zero-sum or negative-sum relationship. In comparative terms, this idea predicts that more market-driven forms of ownership and finance are correlated with more market-driven forms of employment, and vice versa (Gospel & Pendleton, 2003). Drawing on agency theory, various scholars have stressed how employee rights increase the agency costs to shareholders. For example, in Germany, codetermination is argued to reinforce poor managerial accountability by dividing the supervisory board into factional benches, diluting the board's overall powers, and promoting collusion between management and employees (Pistor, 1999). Roe (1999, p. 194) also sees codetermination as increasing agency costs to shareholders, because "diffuse owners may be unable to create a blockholding balance of power that stockholders would prefer as a counterweight to the employee block." Consequently, codetermination reinforces the weakness of capital markets and lowers the number of widely held corporations.

Despite contrary econometric results (Gorton & Schmid, 2004) and well-documented methodological problems in defining a control group or measure of codetermination in Germany (Höpner & Müllenborn, 2010), no systematic evidence exists to suggest that strong employee voice at the board level has a significant negative effect on firm performance or share prices (Baums & Frick, 1998; Fauver & Fuerst, 2006; Höpner, 2004; Kraft, Stank, & Dewenter, 2009; Wagner, 2009). Nonetheless, labor influence does help to improve productivity (Renaud, 2007) and reduce labor turnover and preserve firm-specific human capital (Werner & Zimmermann, 2005), although this may come at some expense of firm value during periods of restructuring (Atanassov & Kim, 2009). E.H. Kim (2009) thus concludes while a pure shareholder value orientation is inefficient, employee influence is more effective where it is moderated by other factors.

An inverse perspective links dispersed ownership to a weaker role of employees. Here, the short-termism of capital markets and shareholder value are argued to undermine long-term commitments to employees (R.P. Dore, 2000; Lane, 2003). Shareholder-oriented corporate governance may provoke conflicts with employees (Vitols, 2004). First, shareholders prefer firms to focus on a single business or core competence, which may create conflicts with employees over the definition of core business units, divestment or closure of non-core units, and strategies of growth by diversification used to stabilize employment. Second, equity-oriented performance targets create new questions of performance criteria, time horizons, and disciplining poorly

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performing units. Third, performance-oriented pay for managers and employees is often used to link incentives with business-unit performance, raising issues of the equity and risks of contingent pay. Finally, struggles may emerge over the distribution of value added between dividends or internal reinvestment. Together these factors create pressure to match employment to market conditions by reducing excess employment, divesting from less profitable businesses, and decentralizing wages to match marginal productivity. Substantial evidence exists linking more market-driven ownership and finance to faster employment adjustment (B. Black, Gospel, & Pendleton, 2007), shorter job tenures (B. Black, Gospel, & Pendleton, 2008), and stronger use of performance-based pay systems (Garcia-Castro, Aria, Rodriguez, & Ayuso, 2008; Jackson, 2007).

Other theories posit a more positive-sum relationship between capital and labor. The "varieties of capitalism" approach argues that blockholding and employee voice are complementary and mutually reinforcing in ways that contribute to competitive advantages in industries characterized by incremental innovation (Hall & Soskice, 2001a; Soskice, 1999). Unlike the agency interpretation, commitment by investors here supports stable long-term employment, investment in worker training and cooperative industrial relations. Management is able to build long-term organizational capacities by drawing upon both patient long-term investment and the high-trust work organization. These institutional complementarities are seen as key institutional preconditions for the dynamic (X-) efficiency in lower volume, high-quality product markets that require high skills (Streeck, 1992, 1997). Indeed, comparative evidence supports the linkages between corporate governance and more use of continuous types of training (B. Black et al., 2008).

Most theories consider the scenario where blockholding is combined with employee voice. Still, other combinations are possible. Many countries exhibit blockholding but do not have particularly strong employment protection, such as South Korea, or employee voice, such as Italy. The more interesting case is when dispersed ownership is combined with strong employee voice. While some of the above authors suggest that this combination will lead to a convergence of employment practices toward the U.S. model, a number of studies using firm or establish-level data on HRM practices show that high-performance work practices may, in fact, coexist even under conditions of stock-market pressure. Conway et al. (2008) compare the stock exchange listing of French and British firms, finding that listing is positively associated with teamwork and performance pay practices. Deakin et al. (2006) find case-study evidence from the United Kingdom that suggests that enduring and proactive partnerships may flourish where management can convince shareholders of the long-term gains from this approach, and other regulatory factors operate to extend the time-horizon for financial returns (Deakin, Konzelmann, Hobbs, & Wilkinson, 2002). Nonetheless, other evidence

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suggests that, in the United Kingdom, corporate governance practices oriented strongly toward shareholder-value do have a constraining influence on commitment-based HRM policies and outcomes (Konzelmann, Conway, Trenberth, & Wilkinson, 2006). Similarly, case studies on United States–Japanese joint ventures show that strong shareholder pressures from the United States side led to short-term pressures for cost reduction and ultimately the sale of the company (Konzelmann, 2003).

Looking to the context of stakeholder-oriented corporate governance systems, changes in ownership toward more dispersed shareholders has also influenced labor. Jackson et al. (2005) show that since the mid 1990s, the strong role of labor in Germany did not prevent the adoption of managerial practices oriented toward shareholder-value, but conversely shareholder-value did not undermine the strong role of employee influence and commitment to long-term employment practices. Fauver and Fuerst (2006) found that employee power is used in coalition with shareholders to promote greater accountability and thereby it decreases agency costs by monitoring managerial pay, fighting for transparency, opposing prestige investments, and also sometimes by siding with shareholders in corporate restructuring. In a study of Japanese firms, Jackson (2007) found a positive relationship between the use of managerial stock options, equity-based performance measures, and more market-oriented employment patterns. Meanwhile, the percentage of in-house executives within the board had a negative impact on market employment patterns, but foreign ownership had no significant impact on employment outcomes. This suggests that external market pressures may be less important than the style of insider governance in determining employment patterns (see also Abe, 2002; Abe & Shimizutani, 2005). Similarly, strong employee voice in Japanese firms is associated with increased transparency to shareholders and greater shareholder voice (Miyajima, 2007). These findings all lend some support to the notion of accountability conflicts or transparency coalitions emerging at the level of the firm (Aguilera & Jackson, 2003; Gourevitch & Shinn, 2005).

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Discussion and Conclusion

As a concluding discussion, we would like first to suggest how integrating different paradigms of institutional explanation requires advances in comparative methodologically. Second, we would argue that comparative scholars must take stock of the era of financialization and the aftermath of the global financial crises of 2008. In particular, we discuss how these events delegitimized shareholder value orientations and role of the United States as a benchmark case for international comparisons. These events have now touched into so many other areas of international governance such as regulation of financial markets, accountability, fairness, and ultimately the impossible search for the new “best model” of corporate governance.

Toward Case-Based, Historical, and Actor-Centered Forms of Institutional Explanation

Economics, culture, law, and politics each offer a unique lens through which to explain corporate governance systems and practices from a comparative perspective. We argue that progress in comparative corporate governance research will depend strongly on our ability to adjudicate between and ultimately integrate these different theoretical approaches. In supporting this claim, we will suggest that theoretical integration will be best served by adopting research strategies that are more strongly *case-based* as opposed to variable-based, dynamic and *historical* in orientation rather than static and cross-sectional, and that adopt an *actor-centered view of institutions* rather than viewing institutions merely as external constraints on firms. We discuss each point in turn.

One common limitation of the aforementioned approaches has been the tendency to see these paradigms as essentially competing explanations. Institutions have been studied largely as single "variables" that impact firms rather than in relation to specific national "cases" (Ragin & Zaret, 1983). For example, legal scholars see investor protection as the critical variable influencing agency costs. Meanwhile, political scholars have stressed notions such as "left power" or majoritarian political systems as influencing the bargaining power of stakeholders. Here, institutions are often compared in terms of highly aggregated measures and subjected to traditional statistical analysis with the aim of isolating the net effects of these variables across a wide range of country cases. Often comparative scholars have debated the relative size and strength of competing variables based on absurdly small sample sizes drawn from the universe of OECD countries. Much of this work blatantly ignores the well-known "small-N problems" that limit the application of statistical methods. Moreover, we argue that this approach ignores a more theoretically key point that what matters are the *particular combinations* of institutions in a country. Variable-based approaches thereby fail to take account of a range of possible interactions and complementarities among institutions.

Comparative institutional analysis in economics (Aoki, 2001), comparative capitalism approaches in political economy (Jackson & Deeg, 2008), and historical institutionalism in political science (Steinmo et al., 1992) have articulated a broad agenda to understand the complex historical interactions among institutions. The emphasis is less on the function of particular institutions, and more on *how* and *why* institutions differ across countries. Thus analysis is often inspired by a "thick" description of particular cases (see Redding, 2005) and holistic analysis of institutions within that a particular country. Here, causal mechanisms may be the result of complex conjunctions of factors (Ragin, 2008). Moreover, similar outcomes may be the result of multiple

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pathways and functionally similar effects—a concept known as equifinality (P.C. Fiss, 2007).

Corporate governance is influenced by multiple, functionally interrelated sets of institutions. The resulting clusters or configurations of institutions are more complex than simple bipolar models of corporate governance such as shareholder versus stakeholder, market versus bank, or outsider versus insider (Aguilera & Jackson, 2003). The result is diverse but non-random configurations of corporate governance. One source of such clustering relates to complementarity—situations where the difference in utility between two alternative institutions $U(x')–U(x'')$ increases for all actors in the domain X, when z' rather than z'' prevails in domain Z, and vice-versa (Aoki, 2001; Milgrom & Roberts, 1990). Complementarities do not imply economic efficiency but a process of interaction and mutual reinforcement. For example, strong shareholder rights and weak employment protection may have mutually reinforcing effects on ownership patterns, pushing countries toward higher dispersion among small investors. Aguilera et al. (2008) discuss how the costs, contingencies, and complementarities of certain governance practices lead to different degrees of corporate governance effectiveness. An illustration is their stylized case comparison of automobile producers in Russia and Japan to demonstrate that even though insider (employee) control generates moderate costs for minority shareholders and heavy reliance on an extensive resource base in both countries, the effectiveness of insider control in Russia and Japan is strikingly different—bringing unchecked insider control in Russia, as opposed to tight complementarities in Japan with the main banks and the internally structured employment system. Despite the theoretical importance of complementarities within the corporate governance literature, few studies have yet taken advantage of new innovations in cross-cases comparison and configurational comparative methods (Ragin, 2008).

A second and closely related point is the importance of history for institutional analysis (see recently Streeck, 2009). Explaining the diversity of corporate governance across countries must adopt a historical perspective that takes into account how institutions originate and evolve. For example, the German model of corporate governance was not created by conscious design, but emerged through incremental and piecemeal changes that resulted in an unintended fit between bank control and strong employee voice (Jackson, 2001; Jackson & Vitols, 2001). Some features of this model, such as two-tier supervisory boards, are very old but came to take on new purposes in relation to bank control and reinterpreted by the emergence of new powerful actors, such as labor unions. The resulting system was not created at a single point in time, nor can it be explained by single “key” variables. In rather general terms, one could say that different institutional elements of corporate governance co-evolve over time (Aoki, 1997, 2010). Co-evolution points to a non-hierarchical form of interdependence among complex sets of institutions, whereby

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changes in one institution may reinforce or create pressures to change other institutions in ways that evolve slowly in historical time, sometimes leading to piecemeal adaptation or reforms, which may in turn have a reciprocal influence on other institutions. So blockholding may create political demands for employee voice, but employee voice may help democratize and thus legitimate blockholding. Likewise, shareholder protection may facilitate dispersed ownership, but dispersed owners can create or consolidate political demands for legal protection. Untangling the direction of causation requires bringing attention to the temporal dimension and the specifics of each case.

The importance of a historical perspective is easily seen in the case of the United States. The U.S. model has undergone a dramatic evolution from managerial capitalism to investor capitalism (G.F. Davis, 2009). The historical trajectory of these institutions means that at any particular time, corporate governance contains a number of contradictory pressures and points of conflict. Historically, a managerialist model of corporate governance reflected the dispersed nature of ownership and consequent separation of ownership from control. The rise of new actors, such as pension funds, changed the power relations among these factors and gave rise to new corporate governance institutions. Their influence depended in turn on the emergence of other actors, such as takeover raiders engaged in leveraged buyouts. These actors sought to exploit particular weaknesses in corporate governance institutions and create new opportunities—namely, as individual investors would sell shares and follow strategies of "exit," opportunities emerged for takeover raiders to buy corporations at a low price. This threat of hostile takeover gave institutional investors greater power and influence, as managers sought to keep investors loyal to the firm and thwart takeovers by higher share prices. Ultimately, the rise and institutionalization of corporate governance based on the logic of "shareholder value" rests upon an uneasy or ambiguous compromise between different definitions of shareholder "value" and conflicting strategies for realizing value based on liquidity, commitment, and different organizational forms of shareholder activism. For example, the transformation of executive remuneration in the United States during the 1990s reflect both the growing influence of "shareholder value," and the continued power of executives in designing such systems for their own self-interests (Bebchuk & Fried, 2004).

These examples are intended to illustrate that corporate governance institutions evolve in a historical fashion that is often incremental in nature and shaped through the layering of new rules, conversion to new purposes, and reinterpretation by new actors over time (Streeck & Thelen, 2005). Similarly, Aoki (2007) argues that

> Any model useful for examining the nature of an institution and conditions for its self-enforceability is likely to need to specify a player

> and its possible action choices beforehand … the existence of such a player may be rationalized as historically given. We need to acknowledge, however, then that such methodology implies that the game theoretic analysis cannot be a complete theory of institution.

While the parameters of an institution appear as exogenous and fixed to actors in the short term, they must be considered variable and dynamic in the long run. Hence, the economic analysis of institutions must go hand-in-hand with historical analysis (Greif, 2005).

Finally, a key theoretical and methodological issue concerns the *non-identical nature of actors* across different institutional contexts (Jackson, forthcoming; Sorge, 2005).[13] Institutions not only constrain the strategies of actors, but also actually shape their identities, interests, and organization in more fundamental ways. Key categories of actors such as "shareholders" or "managers" may exhibit fundamental differences across countries. For example, shareholders (e.g., banks, pension funds, individuals, insurance companies, hedge funds, private equity, etc.) possess different identities, interests, time horizons, and strategies (Aguilera & Jackson, 2003). Some investors such as pension funds may have a largely financial relationship based on legal regulations, such as fiduciary duty. Meanwhile, other investors such as banks or life insurance firms may be governed by different conventions and thus pursue more strategic motives of control. Consequently, comparing the origins or influence of particular processes (e.g., hostile takeovers, executive pay, etc.) requires attention to the socially embedded nature of actors, actor constellations, interests, and power relationships. This perspective is a core of what might be labeled actor-centered institutionalism (Mayntz & Scharpf, 2005).

The point here is that comparative studies of corporate governance must go beyond broad typologies of institutions, and look in a "contextualized" way at the underlying identities and constellations of actors. Rather than starting with a clean slate of preexisting actors with assumed or fixed sets of interests, an actor-centered perspective must be concerned with contextualizing actors within a particular setting as a core part of the analysis. These settings help to define actors' identities and interests, but actors also seek to transform these settings through their actions—particularly through politics and contention. Starting with the embeddedness of actors in a particular social context (Granovetter, 1985), corporate governance scholars should pay close attention to how private economic actors (e.g., firms, networks, associations) are socially organized and interact with one another—a "thick" view of institutions that takes account of the diverse identities and interests of actors across countries, including investors, employees, unions, managers, firms, and business groups (Redding, 2005). Comparative and historical analysis makes obvious that this relationship between the actors and institutions is far from a

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static equilibrium, but becomes a dynamic process of mutual interdependence where the emergence or decline of different types of actors is a driving factor behind institutional diversity and change.

Reevaluating the U.S. Model: Financialization and the Aftermath of the Crisis

An important cognitive and normative barrier remains in seeking to realize the promise of comparative analysis—namely, the hegemony of the U.S. model as a benchmark for cross-national comparison. Much comparative work on corporate governance was initially inspired in the late 1980s and early 1990s by efforts to understand the purported virtues of "patient capital" provided by banks in Germany and Japan relative to the "short-termism" of the U.S. and U.K. capital markets. The problems with the bank-based model and emergence of new models of governance during the venture capital fuelled growth of Silicon Valley changed this debate entirely. The United States came to be a paradigmatic case of the shareholder-oriented or market-based approach to corporate governance. Ownership of corporations is dispersed but involves high engagement from institutional investors, such as pension funds. Corporate boards are small, have a high proportion of outside or independent members, and utilize committees to improve board processes. Executive pay links pay to top managers' salaries to shareholder returns. The internal and external aspects of corporate governance are linked through the monitoring of gatekeepers, such as audit firms, that certify the flow of information from managers to capital markets. And the market for corporate control exerts a final discipline on poorly performing firms, who face a heightened risk of takeover. These different elements were thought to have strong institutional complementarities, operating as a positive and mutually reinforcing system of effective corporate governance. The finely tuned checks and balances within the system would support efficient markets, and limit problems of short-termism. These stylized characteristics of the U.S. model became widely cited as best practices or even a global standard for good corporate governance.

The collapse of Enron in 2001 renewed debate about the virtues of different corporate governance models, showing that the U.S. model was not only vulnerable to failure, but also showed systemic weaknesses (G.F. Davis, 2009; Morgan, 2010; Whitley, 2009). The 2002 Sarbanes–Oxley Act in some ways deepened the controversy about the U.S. model, but the ideological hegemony of the U.S. model was finally cracked after the collapse of Lehman Brothers and ensuing financial and then economic crisis.

Unlike the stylized shareholder-oriented model found in economic theory, the actual practices in U.S. firms have a more complex and conflicting relationship. Just as each mechanism of the system depends upon support from other mechanisms as a complementary whole, the imperfect implementation of each mechanism may undermine or lead to dysfunctional linkages within

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the system. These dysfunctional linkages are manifest in the recent the bubble and scandals surrounding the Enron and Worldcom cases. Despite the strong alignment of managers to shareholder value, the solution to agency problems of the U.S. corporation is too often based on excessive incentives for managers, too little responsibility by investors, and too little genuine scrutiny by independent boards. Gatekeepers received most of the blame during the time of the Enron crisis and Sarbanes-Oxley (SOX) represented an almost unprecedented legislative reform targeted at the audit process. Perhaps ironically, the audit firms themselves have been one of the main beneficiaries of this process. While SOX has some demonstrable positive effects on improving disclosure and restricting earnings management, this regulatory approach had only a limited influence on the overall system of corporate governance. The SOX reform has done little to address the fundamental issues regarding investor responsibility, executive compensation, and the tenuous role of the board within this constellation of actors.

From this more systemic perspective of U.S. corporate governance, the current financial and economic crisis is not surprising. Indeed, the current crisis has much in common with the "control frauds" of the past crisis such as the Savings and Loan Scandal or Enron, where managers use their control over firms to create fictional accounting profits and real economic losses in a self-reinforcing but ultimately unsustainable way (W.K. Black, 2005). The securitization of mortgages and packaging into collateralized debt obligations (CDOs) gave banks the ability to separate credit risks from market risks, thus allowing them to take bigger bets with less security (Lim, 2008). While individual risks were at least partially traded away, the level of system risk grew to an intolerable level. New patterns of agency were created between borrowers, lenders, and credit-ratings agencies by this new model of "generate and distribute" loans, where the originators of finance do not bear long-term responsibility for monitoring debt covenants. These systemic risks remained invisible, covered by the misleading appearance of growing profitability despite the growing pressure for a rare but severe adjustment.

While the origins of the financial crisis are a topic of great complexity, it is legitimate to ask what role corporate governance has played, if any? While this question will require detailed future research, a few points can be mentioned. First, accounting standards were proven to be inadequate and so-called "fair value" accounting that benefits shareholders through rising asset prices on the up side also clearly amplified the downside risks to negative adjustments in equity valuations. Second, a strong link exists between the high power incentives promoted by CEOs and the risk-taking behavior of bank executives, as well as lower level employees and traders. The "bonus culture" of banks has come under severe scrutiny. From a corporate governance perspective, the overall remuneration policy is a responsibility of the board and should have been monitored with a view to potential risks to the long-term

value of the enterprise. Third, risk-management practices proved insufficient to get boards to monitor and prevent excessive risk taking (see OECD report in particular by Kirkpatrick, 2009). Given the clear responsibilities of the board, this area will clearly need to be addressed in future research and policy considerations. Finally, the role of credit-rating agencies suggests that gatekeepers remain very concentrated and still face substantial conflicts of interest (Coffee, Jr., 2006). Clearly, these issues concerning the role of corporate governance in the financial crisis will emerge as an important area for new research and debate.

Meanwhile, what future does the shareholder-value model of corporate governance have after the financial crisis? Certainly, this question is more interesting and meaningful than it was just one year ago. It is highly unlikely that the U.S. model will evolve in the direction of Continental European style stakeholder-oriented corporate governance—nor were these systems immune to the current crisis. Yet the period is one where a more "enlightened" approach to shareholder-value seems possible and hence opportunities exist to address some of the short-term nature of the current system. Such a more enlightened approach to shareholder value would need to go beyond the traditional emphasis on market disclosure and systems of risk management. Rather, investors would have to be encouraged to act more like owners than traders. Independent directors would have to feel stronger obligations to stakeholder constituents. And the high-power incentives in the name of shareholder interests will need to be fundamentally addressed. In the long run, such a market-oriented and shareholder-centered system could develop many more commonalities with stakeholder-oriented systems by democratizing financial markets and making finance itself accountable to the public interest.

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Conclusion

In this article, we sought to take stock of existing comparative and international corporate governance research and to identify research issues that deserve greater attention as institutional contexts and governance actors are constantly changing. We first reviewed the concept of corporate governance, as well as how the quintessential question of cross-national diversity in corporate governance systems has been addressed in the existing literature. Second, we discussed from a macro-level perspective the contributions, as well as limitations, of the four main theoretical paradigms (economics, legal, culture, and politics) that have been used to understand comparative corporate governance. We concluded from this section that there is no single perspective adequately explaining cross-national diversity on its own. Hence, in section four, we took a more issue-oriented approach (micro level) and asked to what degree these four theoretical paradigms help us understand stability and change in the structure of corporate ownership and the role of labor in the governance equation. We concluded with two final points: a reflection of the

methodological requirements for comprehensive comparative corporate governance research and a reexamination of the (until recently) salient shareholder-oriented model.

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Endnotes

1. Theories of corporate social responsibility (CSR) also argue that corporate decisions may have negative externalities on stakeholders who are not part of the decision making. Thus CSR theories call for greater dialogue, participation, and responsibility toward stakeholders in company decision making (D. Vogel, 2006).
2. There are several cases studies of how trademark companies deploy their multiple practices, including governance ones across the globe, Lincoln Electric being one of the most taught cases on compensation issues.
3. Notably, Roe does not so much emphasize the banks' capacity to lend, but he very much stresses the capacity of banks to hold stock directly. Roe also discusses various other financial regulations on institutional investors that restrain them from taking large stakes, and pursue a diversified investment strategy in response to their fiduciary duties.
4. Macroeconomic studies show that the relative proportion of assets held by banks or stock markets is inversely related (S.W. Black & Moersch, 1998) and investment in bank-based countries is significantly related to the level of bank assets, while investment in market-based countries is dependent on the size of stock markets.
5. Some moral or political theories suggest an intrinsic case for the involvement of stakeholders in the firm in terms of democratic rights and voice (Blair, 1995; J.H. Davis, Schoorman, & Donaldson, 1997; Donaldson, 1989; Donaldson & Preston, 1995; Freeman, 1984).
6. Any efficiency-based explanation of corporate governance ultimately implies tracing diversity back to different natural endowments or historical stages in a universal process. In this vein, the particular features of German and Japanese corporations such as bank-based finance or strong internal labor markets are routinely explained with broad reference to "late industrialization" (Gerschenkron, 1962).
7. Organization theory specifies many distinct dimensions of dependence between organizations and their environments, but has made little progress toward their synthesis (Fligstein & Freeland, 1995).
8. S.H. Schwartz (1999) includes the following cultural dimensions: embeddedness, hierarchy, mastery, affective autonomy, intellectual autonomy, egalitarianism, and harmony.

9. Suggested alternatives are GLOBE measurements (House, Javidan, Hanges, & Dorfman, 2002), as well as Inglehart's "World Value Survey" at Michigan University (Inglehart & Baker, 2000).
10. There exists some new efforts to come up measures that better capture institutional enviroments and institutional distance that will help further empirical research. For example, Holmes, Miller, Hitt, and Salmador (2010) seek to understand better the origins and implications of formal institutions and develop a formal institutions framework based on three dimensions: regulatory, political, and economic. Berry, Guillén, and Zhou (2010) take a unique approach to the concept of cross-national differences by offering a multidimensional construct, rather than a cultural or Euclidean approach, to measure cross-national distance between countries. Their framework is grounded in institutional theory and includes economic, financial, political, administrative, cultural, demographic, knowledge, connectiveness, and geographic distance operationalizations to capture better institutional distance between countries.
11. In Japan, the mental map of serving society and employees is subject to the constraint that shareholders are not too unhappy, while in the United States, serving shareholders is subject to the constraint that society and employees are not too unhappy.
12. La Porta, Lopez-de-Silanes, Shleifer, and Vishny are commonly referred to as LLSV.
13. Comparison thus always confronts a challenge of the incomparable and the imperfect balancing of historical uniqueness with theoretical generalization (Hyman, 2001).

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