

## An Institutional Configurational Approach to Cross-National Diversity in Corporate Governance

**Ilir Haxhi and Ruth V. Aguilera**

*Amsterdam Business School, University of Amsterdam; Northeastern University and ESADE Business School, Universitat Ramon Llull*

**ABSTRACT** Corporate governance (CG) research has typically been studied from rather disparate disciplinary approaches, thereby offering myopic and often conflicting rationales. We develop an institutional configurational approach to integrate this ‘siloe’d’ field and explain CG patterns around the world. To do so, we draw on an inductive, theory-building methodology based on fuzzy-set logic to uncover the configurations across institutional actor-centred domains and their impact on CG patterns. Empirically, we explore the necessary and sufficient causal conditions leading to different features of codes of good governance across 32 OECD countries. We generate propositions linking configurational institutional domains to code features. Our results show that a single institutional domain by itself is not sufficient to explain CG outcomes, and that these domains need to be considered in conjunction, leading, in turn, to the identification of four distinct configurational governance prototypes. Our study offers a comprehensive account of drivers of cross-national differences in CG and yields useful insights for managing and regulating governance.

**Keywords:** codes, corporate governance, institutional configuration, qualitative comparative analysis

### INTRODUCTION

In recent years, much of the comparative management literature has striven to explain how national varieties of capitalism impact firm behaviour and managerial practices across advanced industrial countries. A core characteristic of these frameworks is their focus on institutional diversity and how it shapes firms’ organizational and strategic behaviour (Hall and Soskice, 2001; Whitley, 1992). For example, national financial institutions such as capital markets and banks account for the long versus short-term firm orientation (Connelly et al., 2010). Managers also capitalize on institutional diversity –

*Address for reprints:* Ilir Haxhi, International Management & Strategy Section, Amsterdam Business School, University of Amsterdam, P.O. Box 15953, 1001 NL Amsterdam, The Netherlands (i.haxhi@uva.nl).

for instance when they become aware of how different national institutions and their varieties of business organization contribute to multiple types of pay structures or employment security (Filatotchev and Wright, 2011). As noted by both Scott (1995) and North (1991), institutions are not only regulatory schemes but are also often adopted as normative and cognitive collective norms of conduct. In turn, organizations are embedded in these sets of institutions that jointly make up the Gestalt types of Capitalism in which organizations and managers operate (Jackson and Deeg, 2006). Thus, understanding the composition of these varieties of Capitalism sheds critical light on how firms and managers can more effectively develop and sustain competitive advantage.

Corporate Governance (CG) systems are the result of the combination of these institutions, forming different types of Capitalism. Because they are directly linked to firm strategies and outcomes, scholars anchored in multiple disciplines have explored differences in cross-national CG systems, typically focusing on the influence of one institution on CG patterns. Unfortunately, this combined research yields a field that is fragmented along disciplinary lines (Aguilera and Jackson, 2010). For instance, to explain the sources of cross-national CG variation, law and economics scholars point to differing protection of capital rights (La Porta et al., 1998; Shleifer and Vishny, 1997), political economists refer to the role of political coalitions within the State (Cioffi, 2010; Gourevitch and Shinn, 2005), and industrial relations and managerial scholars focus on power relations within firms (Davis, 2009; O'Sullivan, 2000).

This research fragmentation has impaired our full understanding of the complexity of CG patterns in the way they emerge, evolve and diffuse around the world for two main reasons. First, institutions do not work in isolation but rather are part of a broader national institutional system (Amable, 2003). Thus, CG patterns are affected by multiple, functionally interrelated sets of institutions resulting in configurations of institutions. These institutional configurations are more complex than the traditional dichotomous model of CG – the shareholder versus stakeholder model –, which has dominated the comparative CG literature (Aguilera and Jackson, 2010). Second, the emphasis on the structural attributes of institutions, such as the strength of labour union rights, overlooks the interests that specific agents (for instance, investors or governments) play in reacting to, and shaping, these institutions (Giddens, 1984; Greenwood et al., 2011). As stated by Aoki, 'in order to really understand why a particular institution emerges in a domain of one economy but not in a similar domain of another economy, we need to make explicit the mechanism of interdependencies among institutions across domains in each economy' (2001, p. 18).

Most importantly, this single institutional focus might introduce a biased view of governance in the comparative management literature. For instance, a one-dimensional focus on capital rights (La Porta et al., 1998) neglects the salience of power relations between labour and management, since managers are directly affected by capital owners, whereas employees can influence managers through interest group coalitions (Gourevitch and Shinn, 2005). Similarly, although legal scholars tend to assume that hard law is the most effective means to institutionalize norms (Coffee, 1999), institutional sociologists argue that soft law is the one that becomes truly internalized and subsequently institutionalized (Aguilera et al., 2015). As a last example, while Aguilera and Cuervo-Cazurra (2004) claim that Civil Law typically triggers the diffusion of codes as a

response to weak protection of investors, Haxhi and van Ees (2010) show that codes generally amply develop in Common Law countries with stronger capital rights protection.

To explore these complex institutional interactions, and help clarify biased and/or conflicting CG findings, we steer away from the prevailing idea of stressing an individual institution in the analysis of CG patterns. Instead, we draw on an all-inclusive configurational approach that emphasizes the importance of systemic institutional interactions in the broader CG system. Our goal is thus to answer: *Why and how do key institutions influence cross-national patterns of CG practices?*

We employ an inductive, theory-building research design and build on three related theoretical perspectives: Actor-Centered Institutionalism (Aguilera and Jackson, 2003), Varieties of Capitalism (VoC) (Hall and Soskice, 2001) and National Business System (NBS) (Whitley, 1992), to compare how institutional diversity impacts organizational outcomes across advanced economies. While these perspectives are in themselves useful, they do not explicitly account for the interactions across institutional domains, given that their respective one-dimensional logic neglects the complexity and embeddedness of institutions (Amable, 2003). These complementarities are also essential to uncover the different properties of CG systems. We purposefully develop an institutional configurational framework that highlights the interactions of institutional domains (i.e., Capital, Management-Labour, and the State), and includes most of the institutional arrangements defining economic organization and CG practices. We contend that institutional domains vary across countries both in how they are individually composed and in how their corresponding actors interact with one another, and the effect on decision-making and control over the process of creating CG practices. In sum, we seek to move beyond the current silo-based discussions and underscore systemic institutional interactions within the broader CG system.

For the analysis of CG practices, we focus on a central and widespread practice: codes of good governance (hereafter 'codes'). In contrast to the somewhat abstract operationalization of CG, codes are the observable instrument through which national CG is adopted. This makes codes a tangible outcome as well as an appropriate level of analysis to disentangle broader debates around comparative CG. Codes are instruments of self-regulation, delineating best practices with respect to boards, management, supervision, disclosure, and auditing (Aguilera and Cuervo-Cazurra, 2004). They have key implications for a variety of actors in their respective institutional domains, including managers, owners, regulators, and most firm stakeholders. Codes are the product of the diversity in the institutions because their development is contingent on the configurational relationships between country-level institutional domains. In other words, cross-national comparisons of CG systems can be best achieved through the empirical analysis of the CG codes adopted in different countries. Moreover, codes matter for national and firm governance competitiveness because they equip firms with the necessary governance practices to win investors trust – although for some firms, codes can also demand redundant or costly practices at the risk of over-governance (Aguilera et al., 2008). Finally, our arguments about codes are easily applicable to other management practices such as ISO quality settings, HR standards, and sustainability practices.

We use a Qualitative Comparative Analysis (QCA) approach based on the logic of the fuzzy sets (fs/QCA) technique (Crilly, 2011; Fiss, 2007; Ragin, 2000) to explore the

necessary and sufficient causal attributes leading to different codes for a sample of 32 OECD countries. This methodological approach suits our conceptual configurational logic well because it allows exploration of the systemic interactions across attributes uncovered by different perspectives. In addition to revealing configurational effects in a relatively small number of cases, it also identifies multiple pathways to a given outcome. Our empirical findings support our core argument that a combination of different institutional domains is needed to explain differences in cross-national CG patterns, and that the institutional configurational approach offers a more nuanced understanding of comparative management. Furthermore, it helps uncover four new comprehensive prototypes of CG, which add significant texture to the prevailing dichotomous stakeholder versus shareholder CG model.

Overall, our findings advance the CG debate beyond the current silo-based discussions and offer several key contributions. First, we show that, unlike one-dimensional approaches, what matters for management research is not the domains in isolation but how they interact with one another. Thus, we highlight the stronger explanatory power of a configurational view of CG, which advances the broader debate around the varieties of Capitalism. Second, we show that among other things, this configurational view reveals that the same outcome can be reached through different combinations of institutions. This modifies our current understanding of CG and its impact on management. It suggests that imitating a best practice will not always lead to the desired outcome, if this practice is not considered in the context of multiple co-existing institutions. Third, our approach proposes new governance prototypes, which notably expand the current reductionist dichotomous CG model. Finally, our study is one of the first that bases its analysis on 32 countries, contrasting with prior studies that often focus on single country cases. In doing so, it not only yields critical insights for the CG literature but also provides an exemplar of how rigorous empirical methodologies can be deployed to test configurational logics within comparative management (Fiss, 2007).

The structure of this article follows a traditional inductive approach. The next section provides an overview of codes and outlines our guiding theoretical logic. Thereafter, we describe our methodology and summarize our findings, upon which we inductively develop propositions and derive CG prototypes. We conclude with a discussion of how our study contributes to research on comparative CG, to debates about national regulation policy, and to the governance tools with which managers, directors and other firm stakeholders are empowered.

## **CODES OF GOOD GOVERNANCE**

Referring to the rights and responsibilities of different stakeholders in the firm, CG practices are regulated through two normative categories: the hard-law and soft-law approaches (Hopt, 2011). The first is a 'one size fits all' category in the form of statutory norms, entails following legal rules at the risk of penalty, and is designed to regulate CG issues such as minority shareholder protection. The second category comprises standards of best practices, such as codes, which leaves firms to decide on compliance levels (that is to say, the practices are not legally binding and allow firms to adopt the governance practices that best fit their particular contingencies). As such, codes are observable

CG instruments through which national governance logics can be analysed to explore differences across CG systems (Haxhi and Aguilera, 2012).

Codes as sets of best practices are an integral pillar of CG systems, mechanisms and regulations<sup>[1]</sup>. Although some scholars consider the UK Cadbury Code (1992) as the milestone in codes<sup>[2]</sup>, the first code was issued in 1978 in the US and was triggered by merger activities, managers' hostile takeover behaviour and the shareholder activism movement (Aguilera and Cuervo-Cazurra, 2004). By the end of October 2016, 92 countries worldwide had adopted at least one code (European Corporate Governance Institute, ECGI, 2016; Institute of Chartered Accountants in England and Wales, ICAEW, 2016).

Existing empirical research shows that codes have a direct influence on firm CG practices and are considered a key CG regulatory instrument. For example, codes have a non-trivial effect on the structure and functioning of the boards in Portugal and the UK (Alves and Mendez, 2004; Conyon and Mallin, 1997), reduce the agency costs of managerial entrenchment and enhance board oversight in the Netherlands and the UK (Akkermans et al., 2007; Dedman 2000), and positively influence stock prices in Germany and Spain when firms comply with them (Fernández-Rodríguez et al., 2004; Goncharov et al., 2006). Codes are intended to curb negligent CG behavior, boost transparency, and minimize non-compliance.

Although corporations are the ultimate implementers of codes, a host of actors (e.g., executives, directors, owners, proxy advisors, fund managers, rating agencies, most firm stakeholders, public policy agents and regulators) care about codes as they provide a metric to guide and gauge CG behaviour. Managers draw on them to reinforce firm compliance, benchmark CG practices relative to peers, assess governance risks, and communicate their CG mission to stakeholders. Directors rely on codes to implement good CG and use them as a tool to resolve conflicting issues. Investors resort to codes 'to assess a portfolio company's governance risk and responsiveness to shareowners in the context of trading decisions and/or to help guide voting and engagement' (Haskovec, 2012, p. 11). Regulators employ codes to identify gaps in CG standards and assess whether they need to regulate further, either by revising the code or enacting hard-law within institutions such as the stock market. Policymakers use codes to attract FDI, encourage higher firm transparency, minimize misconduct, and curb politically unpopular corporate behaviour such as high compensation schemes or unlimited board terms. To round off this non-exhaustive list, rating agencies, proxy advisors, and other firm related organizations employ codes as a source of information in making recommendations to their clients (ISS, 2012).

In an effort to improve the effectiveness of CG, codes display some similarities across the globe in terms of their flexibility and in how they serve as a market instrument for the evaluation of deviations<sup>[3]</sup>, yet codes vary among countries in the following key attributes: (1) how they are enforced, (2) what entities issue them, and (3) their degrees of institutionalization within the overall regulatory system (Aguilera and Cuervo-Cazurra, 2009; Haxhi and van Ees, 2010). First, in relation to *enforcement*, codes can be distinguished from other forms of regulation in that they are formally non-binding, which boosts their general acceptance and potentially reduces their complexity by allowing firms to adjusting best practices to their own peculiarities. Their voluntary nature is

exemplified in the widely used comply-or-explain principle, which means that while compliance with code provisions is voluntary, the disclosure of non-compliance is mandatory. This principle prevails in most European countries, although the mandatory disclosure of (non-) compliance is further legitimized, for instance by law in the Netherlands and by the stock exchange listing requirements in the UK. Thus, the voluntary nature of codes relates to the legal and policymakers' debate over the regulatory mechanisms of CG.

The second feature of codes reflects their nature regarding the identity of the issuers. Codes are developed by *different institutional issuers* organized around committees of experts, with actors in the field using the code as an assessment tool of CG practices – thereby depicting the societal debate on corporate business practices (Haxhi and van Ees, 2010). In contrast to other standards such as legal settings, expertise issuers draw on both practical experience and scientific knowledge (Djelic and Sahlin-Andersson, 2006). These committees mainly comprise CG business practitioners (e.g., directors, institutional investors, lawyers) and are often chaired by prominent, socially reputed business elites (e.g., Sir Adrian Cadbury in the UK, Marc Viénot in France, Gerhard Cromme in Germany, etc.). In turn, understanding the diversity and identity of the issuers involved in designing the codes in each country offers key information on the relevant actors' commitment to good governance, and whether these actors build coalitions or instead try to impose their individual norms.

Finally, the third feature – the degree of *institutionalization* – captures the extent to which codes are taken for granted and truly internalized into the CG system. It includes both the initial stage when firms join the governance debate, as well as when managers and other stakeholders take the code practice for granted (Enrione et al., 2006). Both their compliance and evaluation by the investors reinforce the degree of institutionalization incorporated in subsequent revisions of existing codes (Haxhi and van Ees, 2010).

In sum, prior research has examined the global diffusion of codes (Aguilera and Cuervo-Cazurra, 2004; van der Berghe, 2002; Haxhi and Aguilera, 2014), has explored differences and similarities in the content of codes (Gregory, 2001; Gregory and Simmelkjaer, 2002) and has explained the degree of firm compliance with the respective national codes (Alves and Mendes, 2004; Conyon and Mallin, 1997). Yet none of these studies have adopted a cross-national comparative perspective to analyse the relationships between country-level institutional configurations and the features of codes (that is to say, the observable dimensions of CG). In the next section, we discuss our institutional configurational framework as the theoretical lens we use to study the relationship between institutional domains, and their combined effect on code features.

## AN INSTITUTIONAL CONFIGURATIONAL FRAMEWORK

Following theoretical cross-national research on institutions and economic organizations, we argue that institutions do not operate independently but rather jointly shape the organization of national CG systems. In particular, we build on the following three well-established perspectives: (1) the Actor-Centered Institutionalism perspective (Aguilera and Jackson, 2003), which grants greater institutional agency and decision-making power to the different institutional actors (i.e., Capital, Management and Labor); (2) the

Varieties of Capitalism (VoC) perspective (Hall and Soskice, 2001), which argues that institutional complementarities make for stability as well as resistance to change, and, hence, that each country develops its own idiosyncratic institutional competitive advantage; and (3) the National Business System (NBS) perspective (Whitley, 1992), which stresses the differing degrees and modes of authoritative coordination of economic activities and potentially unequal interconnections between actors.

Institutions mould the social and political processes of how actors' interests are defined, aggregated, and represented with respect to the codes. Our institutional configurational framework specifies how the role of each institution actor (in each of their respective domains) generates different types of conflicts and coalitions in CG. We take the *Capital* domain from Actor-Centered Institutionalism (Aguilera and Jackson, 2003) and we combine the *Management* and *Labour* into one single institutional domain, which captures their embedded institutional interaction as proposed by the NBS (Whitley, 1992). In Aguilera and Jackson's (2003) model, *Labour's* role is crucial in creating coalitions with other institutional actors to address employee interests in the context of firm-level governance. Yet *Labour's* participation in the creation of codes tends to be minimal because codes are issued by committees of experts with little input from labour union representatives. Even so, *Labour* may play a moderating effect through its interaction with the *Management* domain.

From the NBS perspective, we also borrow the *State* institutional domain, which we will show to be critical in the context of governance. Aguilera and Jackson (2003) do not consider the *State* as a distinct institutional domain<sup>[4]</sup>; however, as we will demonstrate, in the case of codes, the degree of *State* involvement is crucial in the way CG rules are designed and implemented (Fligstein and Choo, 2005). The *State* plays a major role (Amable, 2003; Boyer, 1997), as it can directly act as a regulator or issuer of codes. For instance, the disclosure of the identity of independent directors is a practice enforced throughout different regulatory settings, e.g., listing rules in Canada, self-regulatory codes in France, regulatory agencies in China and hard-law in the USA

Last but not least, our configurational framework builds on and extends the VoC's (Hall and Soskice, 2001) overall logic of institutional complementarities by going beyond its dichotomous one-dimensional classification of institutions. As noted by Amable (2003), a dichotomous one-dimensional logic focusing on hierarchical relations of domains neglects the complexity and embeddedness of institutions and the pattern of relations of the firm with its context at the top of the hierarchy of institutions. This view leaves out cases occupying ambiguous positions (e.g., France and Italy), which neither fit the Coordinated (CMEs) nor the Liberal Market Economies (LMEs) classification.

In sum, we draw on three institutional domains – *Capital*, *Management-Labor*, and *State* – because together they cover most of the institutional arrangements that trigger economic organization and practices. Constructing a country's broader institutional framework through their systemic interactions, these domains vary across countries in how they are individually composed, and in how the actors they represent interact with one another in terms of relative independence, embeddedness in decision-making, and ultimate control over codes. Below, we describe each of these domains and discuss how they might shape the three inherent features of codes (i.e., voluntary nature, diversity of issuers and institutionalization of codes) as is represented in Figure 1.

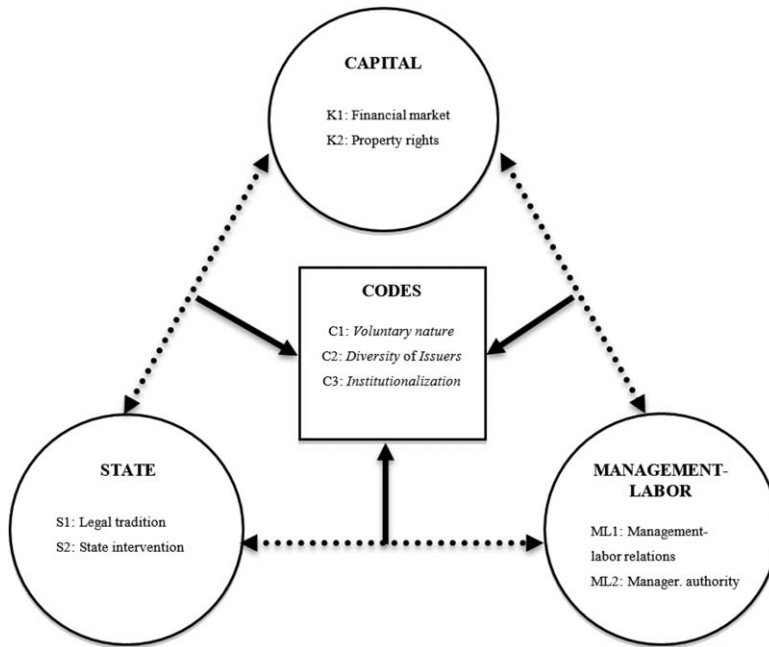


Figure 1. Institutional configurational framework and the inherent features of governance practices

Source: Adopted from Aguilera and Jackson (2003).

The three main features of codes are in the central square; the attributes of each institutional domain are within the circles.

**Capital** refers to the institutional domain that defines the nature of financial investments in a firm, such as private dispersed owners, or commercial banks, representing the institutional capital providers. We capture this domain in terms of the nature of the *financial market* and the *system of property rights* (Aguilera and Jackson, 2003), which together determine the extent to which the regulation of national CG practices will be subject to financial influence.

The *financial market* ranges from market-based to bank-based systems (Zysman, 1983). In market-based economies, such as the UK, the introduction of a non-binding market-oriented code tends to be tied to a strong tradition of self-regulation. Consequently, we expect that in countries like the UK, a strong financial market will influence code development because of its interest in controlling and regulating the managerial board. By contrast, in the bank-based case, such as in Austria, codes are the result of a more strategic orientation towards a firm, and thus will be developed by engaging with a wide range of stakeholder interests (Donnelly et al., 2000; Edwards and Nibler, 2000).

*Property rights* delimit mechanisms through which capital exerts control, such as information exchange and voting rights, and how control is balanced with managerial discretion. For example, the UK is characterized by strong minority shareholder protection (La Porta et al., 1998), highly liquid capital markets, and relatively dispersed ownership (Coffee, 1999). Depending on the level of protection of minority shareholders, the interests of capital in the creation of codes can be driven by multiple demands (issuers), from



dispersed owners to gatekeepers such as accounting firms concerned with enhancing the oversight function and the accountability of the board of directors.

### **Management-Labour**

Actors within this institutional domain play a vital role in the way a firm is internally run, as managers are actors occupying positions of strategic leadership in the firm and exercising control over business activities. Whitley (1999) defines the degree of independence of management (*vis-à-vis* labour) in terms of *management-labour relations* and *managerial authority* over labour. *Management-labour relations* range from cooperative to confrontational. The level of interaction between the manager and the employee remains strictly in the work sphere in cooperative cultures (for instance, the Germanic one) and it extends beyond work to promote workers' welfare in cultures with authoritarian leadership styles (Gelfand et al., 2007) and confrontational industrial relations (for example, Southern European countries). Conflict-ridden systems of management-labour relations, such as those in France or Italy, are characterized by a rigid labour market combined with lower levels of social trust – where the coordination of the firm results in a dense network of tightly integrated large private and State-owned corporations excluding labour (trade unions) from key corporate decisions (Maurice et al., 1986).

*Managerial authority* is the managerial willingness to delegate authority to subordinate employees. Whitley (1999) distinguishes different capitalistic models such as Proprietary Capitalism and Collective Capitalism. In British Proprietary Capitalism, managers delegate control over work processes to skilled workers (Lazonick, 1991). In Collective Capitalism, as seen in Germany, there are higher levels of firm integration through extensive long-term collaboration between firms within business groups and networks, where the loyalty and commitment between the employer and employees extends further down the hierarchy (Katzenstein, 1987). Conversely, the Hybrid Capitalism of Southern European countries is characterized by the overall absence of delegation of managerial authority to lower levels of the hierarchy (Maurice et al., 1986). We expect that these distinct political relationships within firms (Ravasi and Zattoni, 2006) will exert different pressures on the features of the national codes. The nature of coordination between managers and employees, and the type of managerial authority exerted, will be reproduced in the national CG debate with respect to the code development – and expressed in features such as the type of enforcement, dialogue within the coalition of issuers, and overall acceptance.

### **State**

Amable (2003) and Whitley (1992), among others, emphasize the regulatory role of the State as a key institutional actor in business systems through alternative interventionist means reaching for instance, a political consensus in the Netherlands or a political compromise in France. Comparing the CG reforms in the US and Germany, Gioffi (2010) illustrates how 'State actors across industrialized countries have undertaken major legal reforms of CG' (p. 8), and further argues that CG in advanced industrialized countries is 'law intensive' – although it differs across countries in its locus of political power and

law-making. Building on Whitley (1992), we identify two basic attributes of the State as a regulatory institution, the *legal tradition* and *State intervention*.

Research in law and economics highlights the existence of two main *legal traditions* and distinguishes between countries that regulate both their economic organization and CG systems based on jurisprudence – such as those with Common Law traditions – and those that regulate drawing on statutes such as Civil Law traditions (Deakin et al., 2007; La Porta et al., 1998). Different legal families are associated with different processes of policy-making, with key implications for the role of the State institutional domain (Coffee, 1999). Significant variations in the role of the State also derive from the politics of CG across nations (Roe, 2003). Depending on the legal tradition, codes may fill in regulatory gaps (Aguilera and Cuervo-Cazurra, 2004). In Common Law countries, the scope for codes as a CG practice appears to be much larger than in societies that grant more importance to Civil Law. This legal tradition is reflected in the issuance of an abundant number of codes in Common Law countries.

The burden of regulation serves as an indicator of *State intervention* in regulating business practices and of the extent to which, and the manner in which, these CG best practices are enforced. The regulatory burden will be higher in countries that prefer legal regulation to self-regulation. Thus, in the UK the burden of regulation will be lower given that companies are reluctant to be regulated by outside bodies, in particular by State agencies (Parkinson, 1993). In this context, the debate focuses on the choice between voluntarism by the State and self-regulation by companies (Donnelly et al., 2000).

In sum, we propose that these three institutional domains – *Capital, Management-Labour*, and *State* – are likely to influence the features of codes, and thus the nature of CG systems. In the following section, we advance the two configurational mechanisms defining effects of actor-centred institutions on features of codes.

*Institutional configurations.* We argue that the features of codes are contingent on the relationships between country-level institutional domains. In particular, we propose two mechanisms within the configurational approach that are useful for examining how institutions shape the political processes by which actors' interests are defined, aggregated, and represented with respect to codes.

First, the configurational logic considers the bundle of attributes in institutional domains, as opposed to the isolated effects of those attributes on codes' features. Institutional domains capture the 'structural' variations across countries in how the 'agents' they represent interact with one another (Giddens, 1984), and in our context, in decision-making over the features of codes. Thus, the mechanism of complementarity draws on the notion of 'systemic fit' (Drazin and Van de Ven, 1985) where attributes of the various institutional domains can complement one another in the way they interact and relate to an outcome. The concept of institutional complementarity refers to situations in which the impact of an institutional form is conditioned by other institutions (Crouch et al., 2006). We contend that institutional complementarity might make the search for optimal CG across national borders futile because the practicability and institutionalization of CG practices is not a single universal endeavour but rather is interpreted and framed in terms of structures and actors.

Second, a configurational approach allows for the possibility that more than one combination of institutional domains can lead to an effective outcome, i.e., the concept of equifinality, which refers to a situation where ‘a system can reach the same final state, from different initial attributes and by a variety of different paths’ (Katz and Kahn, 1978, p. 30). Equifinality has been explored empirically in a configurational perspective by several organization-level studies (George and Bennett 2005; Mahoney, 2007; Meyer et al., 1993). We draw on this notion to stress that although institutional domains complement one another differently across countries, the ultimate outcomes may nevertheless be similar.

In sum, based on existing research, we propose a configurational framework that includes three institutional domains (and their six causal attributes) that can explain the features of codes. Since we use an inductive approach, we refrain from advancing *a priori* propositions but instead develop new theoretical insights from our findings.

## METHODS

### Sample and Data

We collected data on the features of codes of corporate governance in the 32 OECD countries for the period 1978–2015 from ECGI (2016). We focus on these developed economies because they cover the majority of codes issued worldwide yet they differ in terms of their code features. Additional data to complement ECGI was collected from the OECD (2002), Gregory and Simmelkjaer (2002), and ICAEW (2015). Since we are interested in national level institutions and CG best practices, we focus solely on national codes, and therefore have excluded codes issued by transnational institutions (e.g., Pan-European, Commonwealth, OECD or ICGN). For consistency reasons, we have also excluded laws and legal regulations, reports on code compliance, and consulting firm reports. Data on the institutional attributes for the 32 OECD countries<sup>[5]</sup> were compiled from various available reports and sources such as Djankov et al. (2008), La Porta et al. (1998), the World Bank (WB) (2015), and the Global Competitiveness Report for the period 2008 to 2015. We discuss them below (see Table I).

### Fuzzy-Set Approach to Institutional Configurations

In an effort to study the effects of institutional configurations on codes’ features, we employ a Qualitative Comparative Analysis (QCA) approach based on the logic of fuzzy sets (fs/QCA), which is a technique for systematic explorations of relationships between hypothesized explanatory factors and outcomes (Ragin, 2000). Initially developed for small-N research designs (5–50 cases), it is increasingly applied in management research (e.g., Bell et al., 2014; Campbell et al., 2016; Crilly, 2011; Crilly, et al., 2012; Fiss, 2011; Pajunen, 2008; Schneider et al., 2010). The QCA approach does not seek to uncover the relationship between variables as the ‘average’ influence of X on Y as in large-N studies. Instead, it offers a complete and more nuanced analysis of the relationships between variables. Fs/QCA differs in several respects from traditional linear statistical methods (Fiss, 2007) and is suitable for the analysis of configurational complexity of institutions for three reasons.

Table I. Institutional conditions

<i>Variables/conditions</i>	<i>Description</i>	<i>Source</i>
<b>CAPITAL INSTITUTIONAL DOMAIN</b>		
<b>Financial market</b>	The importance of capital market, expressed as the market capitalization of listed companies, in millions of US dollars. Average for 1989–2014.	World Development Indicators, World Bank, 2015
<b>Property rights</b>	The anti-self-dealing index which denotes the strength of minority shareholder protection against self-dealing by the controlling shareholder is formed by the average of ex ante and ex post private control of self-dealing, formed by principal component of: (1) approval by disinterested shareholders; (2) disclosures by Buyer; (3) disclosures by Mr. James; (4) independent review; (5) each of the elements in the index of disclosure in periodic filings; (6) standing to sue; (7) rescission; (8) ease of holding Mr. James liable; (9) ease of holding the approving body liable; and (10) access to evidence. The index is ranked from low protection (0) to high protection (5) of property rights.	Djankov et al., 2008; La Porta et al., 1998;
<b>MANAGEMENT-LABOUR INSTITUTIONAL DOMAIN</b>		
<b>Managerial authority</b>	Managerial authority in terms of willingness to delegate authority to subordinates is measured by the yearly weighted average in the responses of “In your country, how do you assess the willingness to delegate authority to subordinates? [1 = low—top management controls all important decisions; 7 = high—authority is mostly delegated to business unit heads and other lower-level managers]. The extent to which management-labour relations are cooperative (related to the power distance within the hierarchy) or rather confrontational. It is measured by the yearly weighted average in the responses of “How would you characterize labour-employer relations in your country?” [1 = generally confrontational; 7 = generally cooperative].	Global Competitiveness Report, 2008–09, 2009–2010, 2010–11, 2011–12, 2012–13, 2013–2014, 2014–2015.
<b>Management-labour relations</b>		
<b>STATE INSTITUTIONAL DOMAIN</b>		
<b>Legal tradition</b>	The classification of country legal system origin is based in the following criteria: (1) historical background and development of the system, (2) theories and hierarchies of sources of law, (3) working methodology of jurist, (4) characteristics of legal concepts employed by the system, (5) legal institutions of the system,	La Porta et al., 1998; CIA, 2015.

Table I. *Continued*

<i>Variables/conditions</i>	<i>Description</i>	<i>Source</i>
<b>State intervention</b>	<p>and (6) division of law employed within the system. Common Law systems originated from the English Law tradition and Civil Law system from the Roman Law tradition. The Civil Law uses statutes and comprehensive codes as primary means of ordering legal material, and relies heavily on legal scholars to ascertain and formulate its rules; Common Law system is formed by judges, who have to resolve specific disputes. In Common Law settings, legal rules are often enacted by judges based on precedents and guided by principles such as that of fiduciary duty; while in Civil Law settings, laws are made by national parliaments and judges are not expected to go beyond statutes with the implication that corporate insiders can venture into dealings that are not explicitly prohibited by law.</p> <p>The intervention of State (permissive versus interventionist) is captured by the burden of government regulation index reflects the extent of formal regulation of markets. The assumption is that the type of regulatory role assumed by the State is reflected in the number of regulations with which businesses have to comply. It is measured by the yearly weighted average in the responses of ‘How burdensome is it for businesses in your country to comply with governmental administrative requirements (e.g., permits, regulations, reporting)?’ [1 = extremely burdensome or interventionist; 7 = not burdensome at all or permissive].</p>	<p>Global Competitiveness Report, 2008–2009, 2009–2010, 2010–2011, 2011–2012, 2012–2013, 2013–2014, 2014–2015.</p>

First, governance practices vary not only across shareholder versus stakeholder models but also within each model, contingent on the extent to which they rely on the different attributes of their institutional domains. For instance, within the same CG model, the self-regulatory mode differs substantially (e.g., France, pure self-regulation; Denmark, enforced self-regulation; the Netherlands, legally enforced self-regulation; and Germany, meta-regulation). Therefore, cross-national diversity cannot always be adequately captured by dichotomous dimensions. Fs/QCA allows cases to have partial membership in both the attributes and the outcome, as coded by fuzzy membership scores in the interval between 0 (non-membership) and 1 (full membership).

Second, given the nature of the phenomenon (a small number of countries relative to the number of potential explanatory causes), configurational complexity cannot be tested through linear regression analysis, which makes assumptions about how variables combine based on their linear marginal effects while holding other factors constant at their average value (Lijphart, 1999). Rather than assuming linear causation and estimating the average effect of a given variable on other variables, fs/QCA analysis assumes that a given causal factor may be necessary or sufficient for an outcome, together with combinations of jointly sufficient causal factors (Ragin, 2000). The QCA approach is particularly well suited to the analysis of causal complexity in the form of necessary/sufficient causes in contrast to large-N studies. In settings of necessary but not sufficient causes, the quantitatively oriented researcher uncovering a relationship between X1 and Y could well overlook the importance (and presence) of X2, i.e., X1 and X2 together generate Y. Conversely, in settings of sufficient but not necessary causes, the quantitatively oriented researcher uncovering a relationship between X1 and Y could well overlook the presence of an alternative (non-competing) path of X2, i.e., X1 or X2 generates Y. These phenomena are relevant to capture the dynamics associated with settings of complex causation. Whilst the previous literature has treated institutional domains independently, the outcome of codes results from complex combinations of multiple causes. If a causal condition appears in all of the cases, e.g., all countries with full diversity in issuers have a large financial market, then this condition passes the test of necessity. By contrast, a sufficient condition means that a particular range of scores on a causal condition is usually or always associated with a particular range of scores on an outcome variable (Fiss, 2011).

Finally, given that the same features of codes in different countries may be achieved through several combinations of institutional attributes, the fs/QCA approach is particularly useful because it allows for equifinality.

### **Measures and Calibration**

Ragin (2000) stresses the importance of both meaningful and theoretical knowledge when calibrating measures and coding them into set membership scores. Accordingly, to conduct our analysis, we use a six-value fuzzy set, with empirical indicators re-scored between 0 and 1 according to the degree of membership in the conceptual category. Using the fs/QCA software, all data were first calibrated in an ordinal ranking between 0 (the lowest value) and 1 (the highest value), then these scores were recoded as a four-value (0, 0.33, 0.67, and 1) or a six-value fuzzy set (0, 0.2, 0.4, 0.6, 0.8, 1), where in both

Table II. Calibration of features of codes

<b><i>C1: VOLUNTARY NATURE</i></b>		
<b><i>Fuzzy scores</i></b>	<b><i>Characteristics</i></b>	<b><i>Countries</i></b>
0	Pure self-regulation.	Belgium, Czech Republic, France, Greece, Israel, Italy, Mexico, Portugal, South Korea, Switzerland, Turkey
0.33	Enforced self-regulation, where codes are part of listing rules.	Australia, Denmark, Hungary, Iceland, Ireland, Japan, Luxembourg, New Zealand, Poland, Slovakia, Slovenia, Sweden, UK, US
0.67	Legally enforced self-regulation, where the comply- or-explain principle is enforced by law.	Canada, Netherlands, Spain
1	Meta-regulation, where both legal and self-regulation types of provisions are included in the code.	Austria, Finland, Germany, Norway
<b><i>C2: DIVERSITY OF ISSUERS</i></b>		
<b><i>Fuzzy scores</i></b>	<b><i>Characteristics</i></b>	<b><i>Countries</i></b>
0	No diversity (only 1 issuers)	Austria, Czech Republic, Hungary, Israel, Mexico, Norway, Portugal, South Korea, Turkey
0.2	Low diversity (2 types of issuers)	Greece, Iceland, Luxembourg, New Zealand, Poland, Slovakia, Slovenia, Switzerland
0.4	Medium (3 types of issuers)	Denmark, Finland, Germany, Italy, Japan, Netherlands, Spain, Sweden
0.6	Considerable (4 types of issuers)	France, Ireland
0.8	High (5 types of issuers)	Belgium, Canada
1	All type of issuers present	Australia, UK, US
<b><i>R1: FINANCIAL ORIENTATION</i></b>		
<b><i>Fuzzy scores</i></b>	<b><i>Characteristics</i></b>	<b><i>Countries</i></b>
0	Non-financial orientation	Czech Republic, Finland, Germany, Greece, Israel, Portugal, Turkey
0.33	Prof/fin/director initiative (PRO/SE/INV/DA)	Belgium
0.67	Financial with governmental or professional initiative (SE, GOV or PRO)	Austria, Denmark, Hungary, Iceland, Italy, Japan, Mexico, Netherlands, New Zealand, Norway, Poland, Slovakia, Slovenia, Sweden, Spain, Switzerland
1	Financial orientation (INV, SE)	Australia, Canada, Ireland, Luxembourg, South Korea, UK, US
<b><i>R2: GOVERNMENTAL ORIENTATION</i></b>		
<b><i>Fuzzy scores</i></b>	<b><i>Characteristics</i></b>	<b><i>Countries</i></b>
0	Non-governmental orientation	Australia, Belgium, Canada, France, Hungary, Iceland, Ireland, Japan, Luxembourg, Mexico, South Korea, Switzerland, UK, US,

Table II. *Continued*

<b>R2: GOVERNMENTAL ORIENTATION</b>		
<b>Fuzzy scores</b>	<b>Characteristics</b>	<b>Countries</b>
0.67	Financial and professional/academic under governmental initiative (SE or PRO, GOV)	Austria, Denmark, Finland, Greece, Italy, Netherlands, New Zealand, Norway, Poland, Slovakia, Slovenia, Sweden, Spain
1	Pure governmental initiative (GOV)	Czech Republic, Germany, Israel, Portugal, Turkey
<b>C3: INSTITUTIONALIZATION</b>		
<b>Fuzzy scores</b>	<b>Characteristics</b>	<b>Countries</b>
0	nine years over 37 years	Israel, Luxemburg
0.2	11–14 years over 37 years	Austria, Czech Republic, Finland, Hungary, Iceland, Norway, New Zealand, Poland, Slovakia, Slovenia, Switzerland, Turkey
0.4	15–16 years over 37 years	Denmark, Greece, South Korea, Mexico, Portugal,
0.6	17–22 years over 37 years	Belgium, Canada, France, Germany, Italy, Japan, Netherlands, Spain, Sweden
0.8	24 years over 37 years	Australia, Ireland, UK
1	33 (1978) years over 37 years	US
<b>R3: ISSUANCE</b>		
<b>Fuzzy scores</b>	<b>Characteristics</b>	<b>Countries</b>
0	1–2 codes and updates	Czech Republic, Israel, Mexico, Slovakia, South Korea, Turkey
0.2	4–7 codes and updates	Austria, Finland, Greece, Hungary, Iceland, Luxemburg, New Zealand, Norway, Poland, Slovenia, Switzerland
0.4	8–9 codes and updates	Ireland, Italy, Netherlands, Sweden
0.6	11–18 codes and updates	Australia, Belgium, Canada, Denmark, France, Germany, Japan Portugal, Spain,
0.8	33 codes and updates	US
1	47 codes and updates	UK
<b>R4: ANNUAL INTENSITY</b>		
<b>Fuzzy scores</b>	<b>Characteristics</b>	<b>Countries</b>
0	0.11–0.17 codes per year	Czech Republic, Israel, Mexico, Slovakia, South Korea, Turkey
0.2	0.18–0.39 codes per year	Finland, Greece, Hungary, Iceland, Ireland, Slovenia, Switzerland
0.4	0.42–0.50 codes per year	Italy, Netherlands, New Zealand, Poland, Sweden
0.6	0.51–0.89 codes per year	Australia, Austria, Belgium, Canada, Denmark, France, Japan, Luxemburg, Norway, Portugal, Spain, US
0.8	1.06 codes per year	Germany
1	1.1 codes per year	UK



cases 0.5 corresponds to the cross-over point or the average in the calibrated data. A score of 1 represents a case that is ‘fully in’ the category (i.e., full diversity, with all types of issuers present), while 0 is ‘fully out’ (i.e., no diversity, with only one issuer present). A score of 0.5 denotes the transition point where a case is ‘neither in, nor out’ (neither full nor total lack of diversity). Below, we discuss the calibration of our outcome and institutional attributes<sup>[6]</sup> (also summarized in Table II).

*Outcome: features of codes.* We identify three main inherent features differentiating codes from other modes of regulation: their *voluntary nature*; the *diversity of issuers*; and their *institutionalization*. *Voluntary nature* (C1) is operationalized in terms of five forms of enforcement regulations: pure self-regulation, enforced self-regulation, legally enforced self-regulation, meta-regulation and pure regulation (Voogtsgeerd, 2006). Accordingly, this variable is coded on a scale from 0 (pure self-regulation) to 1 (pure regulation) and is then recoded as a four-value fuzzy set. For example, Mexican codes are not subject to any specific enforcement requirement, corresponding to a pure self-regulation case or a full non-membership fuzzy set of 0. The Danish code is part of listing rules, related to an enforced self-regulation with a fuzzy-set membership of 0.33; this means that they have a non-zero membership in the outcome; however, because the score is below the 0.5 threshold, it cannot be considered as a positive case. In Canada, the comply-or-explain is enforced by law, corresponding to a fuzzy-set membership of 0.67, indicating greater legal-type enforcement. In the Austrian code among the three types of provisions, i.e., *must*, *shall* and *should*, the *must* provisions are of a legal nature, thus have a meta-regulation with a full fuzzy-set membership of 1.

*Diversity of code issuers* (C2) is measured by the total number of different types of issuers participating in the code-issuing process in a particular country. Following Aguilera and Cuervo-Cazurra (2004), there are six types of organizations active in the code-issuing process: government (GOV), the stock exchange (SE), investors (INV), director associations (DA), manager associations (MA) and professional (PRO) associations. The outcome is coded as a six-value fuzzy set ranging from 0 (full non-membership, corresponding to no diversity, with only one type of issuer) to 1 (full membership, corresponding to perfect diversity with all types of issuers). For example, Austria belongs to the set of full non-membership, with only one type of issuer present in the code-issuing process, whereas Australia belongs to the set of full membership, with all six types of issuers involved in the process. Intermediate cases have values corresponding to their respective number of national issuers (Table II).

For robustness, we further categorize the identity of the main issuing organization depending on whether the stock exchange (R1: Financial) or the government (R2: Governmental Orientation) is the principal leading issuer in the coalitions. Out of the 32 OECD countries in our sample, in only seven do the main issuing bodies have a pure financial orientation, giving them a full fuzzy-set membership of 1. In 16 countries, the issuing body comprises coalitions of financial (stock exchange) and non-financial (government and professional associations) organizations, receiving a fuzzy-set membership of 0.67. France has a 0 membership, with financial actors absent from the issuing body. Following a similar logic, we have constructed the governmental orientation, ranging between a non-governmental

orientation with a 0 membership, where the government is absent from the coalition, to a full membership of 1, where the government is the only issuer. Table II shows their calibration.

The *institutionalization* of codes (C3) is operationalized by the duration of the national code-issuing process as the percentage of time since the issuance of the first code in the USA in 1978 (a 37-year period). This measurement gives an indication of the relative duration of the institutionalization of the national CG dialogue compared to the international process. The outcome is calibrated as a six-value fuzzy set with the matching scores 0 (full non-membership, corresponding to the shortest period, as in Luxembourg, with only a 9-year duration since its first national code was issued in 2006 – compared to the first code in 1978), 0.2, 0.4, 0.5 (the cross-over point), 0.6, 0.8 and 1 (full membership, corresponding to the longest period, seen in the USA with a 37-year period since the first code in 1978). Finland and New Zealand, which issued their first codes in 2003, corresponding to 12 years over a 33-year period, have a non-zero membership but their score is below the 0.5 threshold indicating that they cannot be considered as positive cases. They are assigned a score of 0.2.

We included two robustness measures for institutionalization: *issuance* (R3) and *annual intensity* (R4). *Issuance* measures the total number of national codes and updates for the period 1978–2015; while *annual intensity* is an indicator of the country's intensity of CG debate since the creation of the first national code, relative to the issuance processes elsewhere. Table II summarizes the calibrations.

*Three institutional domains and their six attributes.* As discussed above, each of the three institutional domains (Capital, Management-Labour and State) includes two institutional attributes to identify that domain. For reasons of empirical correspondence, we first define and then calibrate each of the institutional attributes<sup>6</sup> into six-value fuzzy sets, except the legal tradition, which is coded in crisp sets (0/1). Table I summarizes the coding and sources. We define the **Capital institutional domain** in terms of *financial markets* and the protection of *property rights* (Aguilera and Jackson, 2003). The *financial market* is operationalized by the size of the capital market (Aguilera and Cuervo-Cazurra, 2004), expressed as the market capitalization of listed companies in millions of US dollars (average for 1989–2014 per capita, WB, 2015). The outcome is calibrated as a six-value fuzzy set with the matching scores ranging from 0 (full non-membership as a small financial market, as in Poland) to 1 (full membership, corresponding to a large market, as in Switzerland).

Following Djankov et al. (2008) and La Porta et al. (1998), we measure the protection of *property rights* through revised anti-director rights, which denotes the strength of minority shareholder protection against self-dealing by the controlling shareholder (range 1–5), and indicates shareholders' rights deficiencies in a given country. We calibrate this index into a six-value fuzzy set with the matching scores ranging from 0 (full non-membership or low protection of property rights, as in Slovakia) to 1 (full membership or a high protection of property rights, as in the UK).

The **Management-Labour institutional domain** is measured in terms of *management-labour relations* and *managerial authority* (WEF, Global Competitiveness Report average for 2008–15). The first attribute measures the extent to which management-labour relations are cooperative or instead reflect the predominance of paternalism, as in Southern

European countries. The outcome is calibrated as a six-value fuzzy set with the matching scores ranging from 0 (full non-membership, related to confrontational relations as in Greece), to 1 (full membership, as in cooperative relations in Sweden).

The second attribute, *managerial authority*, is measured in terms of willingness to delegate authority to subordinates. The literature distinguishes between models of high (e.g., in Germany and Nordic countries but also in the UK) and low (Southern European countries) levels of managerial willingness to delegate (Maurice et al., 1986). The outcome is calibrated as a six-value fuzzy set with the matching scores ranging from 0 (full non-membership, related to low delegation of authority as in Italy) to 1 (full membership or a high willingness to delegate authority as in Denmark).

Finally, measures used to define the ***State institutional domain*** include the *legal tradition* and *State intervention* attributes. The first indicator reflects the *legal tradition* that we calibrate through a crisp set indicating whether a country is fully in (1) or fully out (0) of the set of countries with Common (e.g., the UK) or Civil (e.g., France) Law (La Porta et al., 1998). The second measure, *State intervention* is captured by the burden of regulation, which reflects the extent of formal regulation of markets (WEF, 2008–15). The type of regulatory role assumed by the State is reflected in the number of regulations with which businesses have to comply. The outcome is calibrated as a six-value fuzzy set with the matching scores ranging from 0 (full non-membership, related to a high burden or an interventionist State as in Hungary) to 1 (full membership, related to a low burden or a permissive State as in Finland).

### Analytical Approach

The analyses for this study were performed with fsQCA 2.0 (Ragin et al., 2006), using the truth table algorithm for fuzzy sets. The fs/QCA analysis examines the relationship between membership in causal conditions (or attributes) and the outcome of interest. Once all measures are calibrated, the first step is to create a ‘truth table’, which is a data matrix summarizing the property space occupied by our six institutional attributes, and then, to analyse the logically possible combinations of these attributes (Fiss, 2011). A truth-table algorithm is based on a counterfactual analysis of causal conditions, which allows for a categorization of causal conditions into core and peripheral causes<sup>[7]</sup> (Ragin, 2000). The truth table distinguishes between parsimonious and intermediate solutions based on ‘easy’ and ‘difficult’ counterfactuals, establishing two kinds of solutions: the parsimonious solution includes all simplifying assumptions, whereas the intermediate solution only includes simplifying assumptions based on ‘easy’ counterfactuals. The truth-table algorithm also allows the calculation of solution consistency and coverage scores, used to compare the explanatory power of the configurations – thereby permitting a finer-grained understanding of the reliability and importance of different causal paths to an outcome. When using fs/QCA, *consistency* assesses the proportion of cases that are consistent with the outcome, while *coverage* measures how important a particular cause or causal combination is to the outcome and is further subdivided into unique coverage of causal conditions (similar to unique  $R^2$ , see Fiss, 2011). In our study, following Fiss (2011) and Bell et al. (2014), we set the acceptable consistency threshold for the solutions at the more conservative value of 0.85 – which is above the minimum recommended threshold of 0.75 by Ragin (2000). In addition, following Crilly (2011) and

Schneider et al. (2010), and considering our relative small sample ( $N = 32$ ), we set the minimum frequency threshold at one<sup>[8]</sup>.

Finally, in line with our configurational perspective, we have constructed a model that includes all six institutional attributes within the three institutional domains and assesses multi-causal combinations. We run multiple models with six independent measures containing various combinations of causal conditions. Considering that our  $N$  is 32, a model with six explanatory variables (yielding  $2^6 = 64$  possible configurations) ensures highly robust results (Marx, 2005).

## DATA ANALYSIS AND RESULTS

### Necessary Conditions

The necessity test in fs/QCA reveals whether one of the institutional attributes is individually enough to generate an outcome. All individual attributes with membership scores consistently greater than or equal to outcome scores pass the test of necessity. In our data, none of the individual Capital, Management-Labour, and State-related institutional attributes proves to be necessary for any of the outcomes (voluntary nature, diversity of issuers, institutionalization)<sup>[9]</sup>, since they do not reach the required threshold for causal necessity (0.85). This means that Capital-, Management-Labour- and State-related attributes individually do not play any role in shaping the features of codes. Thus, the way in which these CG best practices are introduced through codes, their subsequent debate, and the interrelations of institutional actors involved are complex processes that are deeply influenced by institutional configurations.

### Sufficient Conditions

The next step is to examine whether different combinations of causal attributes are linked to the outcomes in terms of causal sufficiency. Causal attributes above the 0.85 threshold are considered as 'always sufficient' to produce an outcome. In addition, coverage offers an indication of the general goodness-of-fit of solutions. Fs/QCA calculates a measure of raw coverage, i.e., the proportion of total membership in the outcome explained by the causal attribute, and, in cases of multiple solutions, the unique coverage (i.e., coverage that does not overlap with other solution terms). We follow the notation applied by Fiss (2011) and subsequent research, where '●' represents the presence of an attribute, '⊗' represents its absence, and a blank space indicates that a given attribute is not causally related to the outcome. Moreover, larger circles indicate core attributes that are part of the parsimonious and intermediate solutions, whereas small circles refer to peripheral attributes that only occur in intermediate solutions. Below, we discuss findings for each outcome of interest: voluntary nature, diversity of issuers and institutionalization (Table III).

*Voluntary nature.* In both solutions C1a and C1b (in Model C1 of Table III), a combination of a large financial market with strong property rights (i.e., indicated with full circles), mixed management-labour relations, and a Common Law legal tradition with mixed State intervention (i.e., indicated with crossed-out circles) will lead to legally

Table III. Institutional configurations: voluntary nature, diversity of issuers, and institutionalization

	Model C1: Voluntary Nature		Model C2: Diversity of Issuers		Model C3: Institutionalization			
	C1a	C1b	C2a	C2b	C3a	C3b	C3c	C3d
<b>Capital</b>								
Financial market	● ●	● ●	● ●	● ●	● ●	● ●	● ●	● ●
Property rights	⊗ ●	● ●	⊗ ●	● ●	⊗ ●	● ●	● ●	● ●
<b>Management-Labour</b>								
Management-labour relations	⊗ ●	● ●	⊗ ●	● ●	⊗ ●	⊗ ●	⊗ ●	● ●
Managerial authority	● ●	● ●	● ●	● ●	⊗ ●	● ●	● ●	● ●
<b>State</b>								
Legal tradition	● ●	● ●	● ●	● ●	⊗ ●	⊗ ●	● ●	● ●
State intervention	⊗ ●	● ●	⊗ ●	● ●	⊗ ●	⊗ ●	⊗ ●	● ●
<b>Examples</b>								
Consistency	0.78	0.76	1.00	1.00	0.88	0.89	1.00	1.00
Raw Coverage	0.16	0.20	0.21	0.26	0.22	0.25	0.16	0.21
Unique Coverage	0.00	0.04	0.02	0.08	0.07	0.10	0.02	0.06
<b>Solution Consistency</b>	0.70	1.00	1.00	0.95	0.95	0.95	0.95	0.95
<b>Solution Coverage</b>	0.20	0.28	0.28	0.28	0.55	0.55	0.55	0.55

Full circles indicate the presence of a condition. Crossed-out circles indicate the absence of a condition. Large circles indicate core conditions that are part of the parsimonious and intermediate solutions. Small circles refer to peripheral conditions that only occur in intermediate solutions.

oriented codes. This configuration (solution consistency 0.70) is below the minimum acceptable consistency, therefore, this model has limited descriptive power.

*Diversity of code issuers.* Model C2 (Table III) exhibits two pathways to the outcome with solution consistency of 1.00, showing a high consistency score strongly supporting these two configurations. Solution C2a shows that a combination of a large financial market and strong property rights, with less cooperative management-labour relations and high willingness to delegate managerial authority, and a Common Law less permissive State (solution coverage, 0.21; solution consistency, 1.00), are sufficient to generate a high diversity of code issuers. While solution C2b shows a similar combination of institutional attributes, it differs in presenting cooperative management-labour relations and a permissive State (solution coverage, 0.26; solution consistency, 1.00), which is also sufficient to generate a high diversity of issuers. Model C2 in Table III (C2a covers Australia; while C2b covers Canada, the UK and the USA, representing 57 per cent of cases with a high diversity of issuers) shows the relevance of Capital-related attributes and especially a large capital market in a Common Law tradition, to enhance the diversity of issuers.

We also capture another facet of code issuers through the *identity* or orientation of the main issuing body. Table IV provides the solutions for two robustness outcomes. Models R1 and R2 (Table IV) exhibit four pathways to the outcome with high solution consistency scores of 0.96 and 0.91, showing support for these configurations and the good fit of these models. For example, in Model R1 in both solutions, a large financial market and strong protection of property rights are responsible for the financial orientation of the main issuing body in combination with a permissive managerial authority, in a principle-based legal system (with an interventionist State only in R1a). Here, we can clearly observe Australia, Canada, Ireland, New Zealand, the UK and the USA, countries with a strong financial orientation. Furthermore, Model R2 (Table IV) exhibits two institutional configurations (solution consistency, 0.91; solution coverage, 0.27) to a governmental orientation of the main issuing body, covering Austria with a small financial market but collaborative management-labour relations in a statutory legal tradition.

*Institutionalization.* Model C3 (Table III) exhibits four pathways to the outcome (solution consistency of 0.95; solution coverage, 0.55), covering 46 per cent of cases with a high level of institutionalization. The first two configurations C3a and C3b uncover two different scenarios of the long national governance debates undertaken within a statutory legal setting with a cooperative (e.g., in Belgium) versus a confrontational type of management-labour relations (e.g., in France). In addition, the two alternative solutions C3c and C3d (covering the cases of Australia, Canada, the UK and the USA) show a combination of high capital presence (large financial market and strong property rights) and more cooperative management-labour institutions in a Common Law legal setting.

We conduct additional robustness tests for this outcome: the *issuance*, expressed in terms of the total number of national codes (Model R3, Table IV), and the *annual intensity* of creation (Model R4), exhibiting results with high solution consistency scores of 1.00 and 0.93, which uncover four pathways to a large number of codes and annual intensity of issuance. Both robustness variables capturing the different facets of the *institutionalization*

Table IV. Robustness check of institutional configurations: financial and gov. orientation, issuance, and annual intensity

	Model R1: Financial Orientation		Model R2: Gov. Orientation		Model R3: Issuance		Model R4: Annual Intensity	
	R1a	R1b	R2a	R2b	R3a	R3b	R4a	R4b
<b>Capital</b>								
Financial market	●		⊗	⊗	●	●	●	●
Property rights	●	●	⊗	⊗	●	●	●	●
<b>Management-Labour</b>								
Management-labourrelations	⊗	●	●	●	⊗	●	●	⊗
Managerial authority	●		●		●	●	●	●
<b>State</b>								
Legal tradition	●	●	⊗		●	●	●	●
State intervention	⊗	●	●	●	⊗	●	●	⊗
<b>Examples</b>								
	Australia	Canada, Ireland, New Zealand, UK, USA	Austria	Austria	Australia	Canada, UK, USA	Canada, UK, USA	Australia,
Consistency	1.00	0.96	0.89	0.79	1.00	1.00	0.93	0.90
Raw Coverage	0.12	0.19	0.28	0.32	0.20	0.25	0.21	0.16
Unique Coverage	0.01	0.08	0.08	0.03	0.02	0.07	0.06	0.02
<b>Solution Consistency</b>	0.96		0.91		1.00		0.93	
<b>Solution Coverage</b>	0.21		0.27		0.27		0.22	

Full circles indicate the presence of a condition. Crossed-out circles indicate the absence of a condition. Large circles indicate core conditions that are part of the parsimonious and intermediate solutions. Small circles refer to peripheral conditions that only occur in intermediate solutions.

of codes (covering the cases of Australia, Canada, the UK and the USA) illustrate the complexity of the combinatorial influence of institutional domains in the process. The role of the State seems less important in this respect, standing more as a regulatory observer rather than an active actor initiating the national CG discussion.

### Asymmetric Causality

An appealing side of configurational thinking is that the opposite traits of the paths that lead to a given outcome do not necessarily lead to the opposite outcome. In other words, the typical inverse assumptions from linear thinking do not hold here due to causal asymmetry (Ragin, 2000). Thus, we explore which configurations of institutional attributes might consistently lead to the absence (or inverse outcome) of the relevant features of codes (i.e., more self-regulatory enforcement, lower diversity of issuers, and lower issuance). We find evidence of asymmetric causality for the inverse *voluntary* nature and *issuance* models, where both models reach solution consistency scores over the acceptable consistency threshold of 0.85, which provide strong support for the configurations that these two models uncover. These findings demonstrate that there exist several alternative paths to reaching self-regulation and low issuance, which we discuss below.

Model N1 in Table V exhibits five pathways (solution consistency of 0.89; solution coverage, 0.61) to reach pure self-regulation, meaning less legal enforcement. The first three configurations N1a, N1b and N1c capture three different scenarios of pure self-regulation reached in countries with mixed capital attributes (smaller capital markets with stronger or weaker property rights) and confrontational management-labour relations in a Civil Law interventionist State. The two alternative solutions N1d and N1e show a combination of strong capital and cooperative management-labour relations in a Common Law setting. Thus, the inverse-model on how to reach low legal enforcement covers more than half (60 per cent) of the countries in our sample (i.e., 15 out of 25 cases fall under the self-regulatory versus the more legally enforced approach).

Moreover, Model N2 in Table V also shows three configurational pathways (solution consistency of 0.88; solution coverage, 0.87) towards low issuance. The first two configurations N2a and N2b uncover two different configurations of a low issuance reached in countries with small capital markets and confrontational management-labour relations in a Civil Law interventionist State. The third alternative solution N2c depicts a combination of cooperative management-labour institutions in a Civil Law legal setting. Interestingly, the inverse-model on what institutional configurations lead to developing fewer codes covers almost half of the countries in our sample, and 91 per cent of cases that fall under low issuance (Table V). Solutions N2a and N2c present a 'don't care' scenario regarding Management-Labour and Capital domains, indicating respectively that these institutional domains can be either present or absent, yet they are not causally related to the low issuance of codes.

Finally, results in Tables (III–V), show higher coverage scores for both inverse-models of voluntary nature and issuance. As mentioned previously, the overall solution coverage refers to the joint importance of all causal paths (Schneider et al., 2010); while the unique coverage illustrates the relative weight of each path in leading, for instance, to higher or lower issuance. A plausible explanation for the low consistency score of both



Table V. Inverse institutional configurations: voluntary nature, and issuance

Sample: 32 countries	Model .N1: ~Voluntary Nature				Model .N2: ~Issuance			
	.N1a	.N1b	.N1c	.N1d	.N1e	.N2a	.N2b	.N2c
<b>Capital</b>								
Financial market	⊗		⊗			⊗	⊗	
Property rights		●	●	●	●	●		
<b>Management-Labour</b>								
Management-labour relations	⊗	⊗		●	⊗		⊗	●
Managerial authority	⊗	⊗	⊗	●	●	⊗	⊗	●
<b>State</b>								
Legal tradition	⊗	⊗	⊗	●	●	⊗	⊗	⊗
State intervention	⊗	⊗	⊗	●	⊗	⊗	⊗	●
<b>Examples</b>	Czech Rep., Greece, Hungary, Italy, Poland, Portugal, Slovak Rep.	Czech Rep, Korea, Mexico, Slovenia, Turkey	Czech Rep, Israel, Korea, Mexico, Slovenia, Turkey	UK, USA	Australia	Czech Rep., Israel, Korea, Mexico, Slovenia, Turkey	Greece, Hungary, Italy, Poland, Slovak Rep	Austria, Finland, Iceland, Luxembourg, Netherlands, Norway, Sweden, Switzerland
Consistency	0.89	0.85	0.88	0.89	1.00	0.92	0.92	0.91
Raw Coverage	0.42	0.23	0.24	0.15	0.10	0.33	0.44	0.41
Unique Coverage	0.20	0.01	0.02	0.06	0.01	0.03	0.17	0.15
<b>Solution Consistency</b>		0.89		0.88		0.88		
<b>Solution Coverage</b>		0.61		0.87		0.87		

Full circles indicate the presence of a condition. Crossed-out circles indicate the absence of a condition. Large circles indicate core conditions that are part of the parsimonious and intermediate solutions. Small circles refer to peripheral conditions that only occur in intermediate solutions.

MC1 and MC2, is the low number of cases falling under the ‘present’ category (only seven out of 32 cases reach a more legally enforced code, and seven cases with higher diversity in issuers). The voluntary Model MC1 does not reach the minimum accepted consistency score, while the inverse-model N1, reflecting how to reach a self-regulatory enforcement, covers more than half of the countries (60 per cent) in our sample (i.e., 15 out of 25 cases). This brings us back to the debate about the nature of codes, namely whether more regulation goes against the primary self-regulatory purpose of codes aiming to enhance efficiency and flexibility.

In the section that follows, we turn to discussing the theoretical logic reflected in the configurations summarized above – developing mid-range theory of CG for multiple configurations.

## TOWARDS A MID-RANGE THEORY OF CORPORATE GOVERNANCE

Our findings corroborate the need to study the institutional attributes of CG in combination rather than separately. They show that an institutional configurational approach uncovers the relationship between institutional attributes and the different features of codes, i.e., the observable mechanisms of CG. We contend that this combined effect is due to coalitions of actors built around affinities. Thus, we argue that cross-national CG diversity should be understood in terms of institutional configurations shaping how embedded institutional actors (representing those domains) relate to the process of forming coalitions. Actors make choices related to system properties (structure and rules of the game) that are favourable to their interests, leading to an interactive relationship between actors and systems (Hall and Soskice, 2001). Thus, CG systems are associated with specific patterns of institutional structures and relations, marked by correspondence of mutual affinities (or coalition) and opposition (or conflict<sup>[10]</sup>, Maurice and Sorge, 2000).

In short, we demonstrate that these institutional effects cannot be understood in isolation, as is assumed in most prior research. The impact of any single institutional domain such as Capital on CG practices is contingent on the influence of other institutional domains, i.e., Management-Labour and/or the State. For example, contrary to Aguilera and Cuervo-Cazurra (2004) that argue that institutionalization will be higher in Civil Law countries, Haxhi and van Ees (2010) find a higher institutionalization of codes in Common Law countries<sup>[11]</sup>. Although we recognize its importance, we find that the legal tradition on its own cannot explain the institutionalization of codes. As shown by our results (C3), legal institutions become salient only when combined with both a large capital market as well as cooperative management-labour relations. Importantly, this entails that countries with identical institutional attributes in one domain will not necessarily develop identical CG practices, since the relationship between this focal domain and other domains may lead to countervailing effects (Crouch et al., 2006).

Moreover, the configurational approach highlights the possibility of asymmetric institutional configurations. Our findings in Table V demonstrate this notion, as the high versus low outcome of two features of codes (i.e., voluntary nature and issuance) are generated from different institutional interactions. This underscores that ‘set-theoretic connections, as opposed to correlational connections, are asymmetrical’ (Ragin, 2000).

Finally, a key implication of the configurational nature of the features of codes is that it introduces the possibility of equifinality. Comparative national system logic presumes equilibrium, which systemic arrangements aim to reach through the unsettling and decoupling of institutional characteristics to business system types (Whitley, 1992). New equilibria emerge from complementarity or mutual affinity of opposites between institutions, actors and systems. In line with this reasoning, we are able to show that different national institutional configurations can generate an equifinal outcome (Mahoney, 2007).

Therefore, the institutional configurations that emerge from our findings suggest the need to shift from a single factor and linear effects analysis, prevalent in the literature, to analyses of the systemic interactions between actor-centred institutions. We draw on configurational logic to propose that institutional complementarity, equifinality, and asymmetry are the three core dimensions of the institutional configurations that shape the features of codes. We inductively build on our findings to develop propositions linking configurations, rather than single attributes, to features of codes. In doing so, we hope to lay the conceptual basis for a configurational understanding of governance around the world.

### **Institutional Complementarity: Diversity of Issuers**

A key logic within the configurational approach is that the institutional attributes do not operate in isolation but rather are highly interdependent. We discuss this complementarity in the context of diversity of issuers (i.e., Model C2 in Table III), where we find that two configurations are functionally equivalent. Thus, while some of the institutional attributes are held constant, less cooperative management-labour relations complement a less permissive State<sup>[12]</sup> in the first scenario (e.g., Australia, C2a), whereas, in the second (e.g., Canada, the UK and the USA, C2b), cooperative relations complement a permissive State. The latter captures the permissive British legal perspective on the cooperative relations with actors involved in the regulation of the financial system and business practices (Donnelly et al., 2000). Below, we discuss the complementarity logic for configuration C2b in Table III in detail, as an exemplar of institutional complementarity.

First, a large capital market alone – as claimed by Aguilera and Cuervo-Cazurra (2004) – cannot be the unique determinant of a high diversity of issuers (e.g., the counterfactual is the Netherlands with a large capital market but low diversity of issuers). The Capital domain needs to be complemented with cooperative relations in a permissive State that will allow an extensive dialogue of actors in the field and their struggle to (re)gain legitimacy and to maintain their position in the event of crisis. For example, UK codes are used as an instrument to maintain actors' power and re-establish their legitimacy in an evolving context, while the new institutional context receives closer scrutiny (Haxhi et al., 2013).

Second, a permissive Common Law State alone cannot determine high diversity of issuers on its own (e.g., the counterfactual is New Zealand with a permissive State, but low diversity). Instead, it needs to be complemented with a large capital market and a less authoritative management. Again, the UK example is useful because it encompasses a blend of loose CG norm-setting with flexible firm compliance, forcing UK managers

to act in a company's best interests, to avoid conflicts of interest and to exercise care, skill and diligence Cheffins (2011).

Third, cooperative management-labour relations alone cannot determine high diversity of code issuers (e.g., here the counterfactual is Germany with cooperative relations but low diversity). Rather, it needs to be complemented with a permissive State and a large deregulated capital market, which will result in a large diversity of (institutional) actors operating in dense networks, such as in the UK (Dewing and Russell, 2004). Moreover, in the absence of the Civil Law tradition, corporate managers in a jurisdiction with weak company law and lax institutional safeguards can gain credibility in respecting minority shareholder rights by listing on a stock exchange in a country, which offers high standards of investor protection (Bell et al., 2014). As a result, the institutional interaction brings the interests of multiple institutional actors to the fore, adopting soft-law regulation that has the consent of the capital market.

In sum, we show that the different actor-centred institutional domains taken independently cannot, on their own, explain a country's high diversity of issuers. Instead, we need to examine the interaction between the different institutional domains. Hence we propose:

*Proposition 1:* A strong Capital domain combined with (relatively) cooperative management-labour relations and a (relatively) permissive Common Law State will generate a high diversity of issuers.

### **Equifinality: Institutionalization of Codes**

The configurational approach not only helps to uncover complementarities but also brings in the concept of equifinality, whose logic comes out in our findings. Again, we take the example of the *institutionalization* of codes (Model C3 in Table III) to discuss four optimal pathways through which best practices can emerge. The first two paths are reached within a Civil Law setting with mixed management-labour relations (e.g., in France, C3a, and in Belgium, C3b); whereas the last two paths are generated in a Common Law setting with mixed management-labour relations (e.g., Australia, C3c, and the USA, C3d). These four paths to the institutionalization of codes show complementarities between institutional attributes and domains. In order to reduce complexity, we discuss two main scenarios featuring the four pathways. The two scenarios show clear-cut contrasting pathways; yet within each scenario, the pathways uncover mixed institutional attributes and domains.

The first scenario (C3a and C3b in Table III) shows a strong complementarity between relatively strong capital, confrontational labour-management relations and an interventionist Civil Law State. Both cases, Belgium and France, exhibit relatively large capitalization, strong powerful managerial positions but also relatively low levels of social trust and civic norms, as well as conflictual management-labour relations (Goyer, 2011; Knack and Keefer, 1997). In need for transparency and accountability, capital, which is regionally concentrated in Belgium and dominated by foreign ownership in France (FESE, 2015), is more prompted by legitimation and mimicry than by the need to improve national CG practices (Zattoni and Cuomo, 2008). These configurations are characterized by the influence of the State, via its regulatory activities, which have

served as a mechanism to compensate for low trust among social actors (Burt et al., 2000). Thus, dense linkages between large, tightly integrated private and State-owned corporations, management associations and banks are an important characteristic of corporate networks in these economies, resulting in a high institutionalization.

The second scenario (C3c and C3d) illustrates the emergence of an overall 'Anglo-Saxon' model with the typical characteristics of a compartmentalized NBS (Whitley, 1992), showing complementarities between capital and the Common Law legal tradition in a relatively cooperative setting. For instance, in the UK, characterized by short-term orientation of capital providers but an eagerness to protect investors, we also find a highly legitimized code process. The long CG debate in the code-issuing process may be the result of a large financial market providing short-term oriented and a principle-based legal tradition common to all the Commonwealth countries (Haxhi et al., 2013).

Exploring these two scenarios in greater depth, we find four equifinal pathways to high institutionalization. In the first scenario, while some institutional attributes are the same, one optimal pathway is reached through complementarities between a large capital market and a strong managerial power (C3a), and the other path through a relatively smaller capital market complementing a managerial actor willing to delegate (C3b). This is in line with agency theory, since in a confrontational corporate climate, the power of capital providers can be leveraged by the power of managerial actors. In the second scenario, although the Capital domain, managerial authority and Common Law tradition are the same, the two equifinal pathways to high institutionalization are reached by complementarities between less cooperative relations and a less permissive State in one pathway (C3c), and between cooperative relations and a permissive State in the other (C3d). Thus, the level of cooperation is associated with the degree of State intervention in a Common Law setting. It stimulates institutional entrepreneurship by creating incentives for actors to participate voluntarily in the creation of CG practices. As a result, allowing a choice of structures and more flexible forms of soft-law, such as codes, generates high levels of institutionalization for self-regulatory norms aligned with the capital market. This shows how different pathways built on different complementarities lead to the same outcomes in terms of institutionalization.

In short, our findings and reasoning suggest that, in addition to complementarity between actor-centred institutions, the features of codes also exhibit salient equifinality patterns. The dynamics of interaction between institutional domains may differ substantially but can nonetheless produce a similar outcome of legitimation of codes in six countries, all of which have well-established taken-for-granted codes. Thus, trade-offs between different attributes of the three domains lead to several equifinal institutional configurations, which may all result in a high legitimation of codes. Hence, we propose:

*Proposition 2a:* A (relatively) strong Capital domain combined with (relatively) confrontational management-labour relations and a Civil Law interventionist State will result in high institutionalization of codes.

*Proposition 2b:* A strong Capital domain combined with (relatively) cooperative management-labour relations and a (relatively) permissive Common Law State will result in high institutionalization of codes.

### **Asymmetric Institutional Configurations: Voluntary Nature and Issuance**

Finally, the configurational approach highlights the possibility of asymmetric institutional configurations. As shown above, the voluntary nature (Model C1 in Table III), related to higher levels of legal enforcement, does not reach the minimum acceptable consistency threshold, whereas the inverse-model (N1 in Table V), associated with self-regulatory enforcement, exhibits a rich range of combinations. In the case of voluntary nature, our analysis uncovers two broad scenarios that produce a high self-regulatory type of enforcement. In broader terms, these two scenarios contrast two different types of institutional complementarities. On the one hand (N1a, N1b and N1c in Table V), we find complementarity between a weak Capital domain, confrontational management-labour relations, and a Civil Law interventionist State. On the other hand (N1d and N1e in Table V), these configurations exhibit a complementarity between a strong Capital domain and cooperative relations with a Common Law permissive State (similar to Proposition 2b).

The logic is the following. In block-holder economic systems (e.g., Slovenia), the State actor plays a role as the enabler of business activity (Edwards and Nibler, 2000). Dispersed investors are largely inactive, and the Capital actor takes a subaltern role relative to the State actor, as is reflected in the State's statutory legal tradition. However, the combination of relatively small financial markets with lower levels of social trust does not push the State to take a strong regulatory stance. As result, codes are often conceived as a pure self-regulatory tool, enforced neither by the capital markets, nor by the State.

In addition, the role of the capital in Anglo-Saxon countries is significantly more salient, with strong property rights which enable dispersed shareholders to exert control, such as through information exchange and voting rights, highly liquid financial markets and relatively dispersed ownership (Pedersen and Thomsen, 1997). In these countries, financial actors and managers will strive to be 'the agent in power' competing over the dominant position, i.e., seeking to 'control' the issuance of CG best practices. These attributes are combined with the 'laissez-faire' type of State intervention and arms' length management-labour relations (Hall and Soskice, 2001) in introducing more self-regulation. As a result, these institutional domains complement or 'stabilize' one another. Hence, we propose:

*Proposition 3a:* A small capital market with strong property rights protection combined with confrontational management-labour relations and a Civil Law interventionist State will result in more self-regulation.

*Proposition 3b:* A strong Capital domain combined with (relatively) cooperative management-labour relations and a (relatively) permissive Common Law State will result in more self-regulation.

Turning to the configurations explaining issuance (i.e., total number of national codes) (Model R3, Table IV), we find results with high consistency scores that strongly support the configurations we uncover (similar to Proposition 1). However, the inverse model (N2 in Table V) leading to a low issuance shows two possible scenarios. The first

scenario (N2a and N2b) exhibits complementarities between smaller capital markets and confrontational management-labour relations in Civil Law interventionist States. The second scenario (N2c) shows a complementarity between a cooperative Management-Labour domain and a Civil Law permissive State.

In the first scenario, uncovering both configurations N2a and N2b, the complementarities and the logic are similar to those of Proposition 3a, where a weak Capital domain complements confrontational management-labour relations with a Civil Law interventionist State. In all these configurations (N1a, N1b, N1c, N2a and N2b) that lead to both more self-regulation and low issuance of codes, codes are often conceived as a pure self-regulatory instrument, enforced neither by the capital markets, nor by the State, which result in lower issuance of codes or a fewer national codes.

In the second scenario (configuration N2c), in settings such as Austria or Finland, the presence of high country trust and an established work hierarchy in management-labour relations is likely to support cooperative institutional actors such as industrial federations backed by the State in their common efforts to issuing codes. Such a collective managerial willingness to delegate to subordinates (Whitley, 1999), together with a more substantial and longer-term commitment on the part of labour, grant to industry groups significant, even monopolistic, regulatory powers by the State over important CG issue areas (Katzenstein, 1987). Because of this monopolistic power of industrial groups under State coordination, there is no need in these countries for competing regulatory frameworks (contrasting with the UK), and thus, developing subsequent codes, resulting in low code issuance. Hence, we propose:

*Proposition 4a:* A smaller capital market combined with more confrontational management-labour relations and a Civil Law interventionist State will result in low issuance of codes.

*Proposition 4b:* Cooperative management-labour relations combined with a Civil Law permissive State will result in low issuance of codes.

### **Beyond Features of Codes: Configurational Prototypes of CG**

In the previous sections, we have followed an inductive approach (Campbell et al., 2016; Crilly, 2011) to develop propositions building on our findings. Together, these propositions highlight the effect of configurations of institutional actor-centred domains, rather than one-dimensional attributes, on features of codes. Some institutional domains (e.g., Capital) are primary drivers of code features such as diversity of issuers, institutionalization and issuance of codes – whereas other domains (e.g., State and Management-Labour) have a more nuanced effect, depending on their institutional interaction. Beyond the specific case of codes, however, our findings and propositions offer important insights to our broader understanding of comparative CG. They advance the existence of diverse governance prototypes, which refines current dichotomous shareholder-stakeholder CG models prevalent in the literature.

Our findings suggest that Capital, as an institutional domain is undeniably the most influential in shaping the code-issuing process with respect to the diversity of issuers of

codes and their institutionalization. This finding partly supports law and economics scholars' claim that the protection of capital rights is the main source of cross-national CG variation (Filatotchev and Wright, 2011; Kraakman and Hansmann, 2001; La Porta et al., 1998). However, we uncover that capital's leading role is contingent on the level of institutional complementarity (Aoki, 2001), established in combination with a less regulatory (and more permissive) State agent and more cooperative top-management actors.

The role of the State legal tradition has a less straightforward effect on codes, unlike what it is predicted by research on codes. While a more permissive Common Law State enhances code diversity and issuance, its role is more complex when it comes to voluntary nature and institutionalization. A similar degree of complexity emerges within the Management-Labour institutional domain, which delivers more mixed and 'fuzzy' effects on features of codes. Thus, our institutional configurational approach suggests that the role of each institutional domain needs to be conceptualized as part of a broader CG system, going beyond the simple shareholder versus stakeholder CG dichotomy or the one-dimensional logic, also complementing Amable's view as explained in more detail in our discussion. Towards that goal, we identify four district configurational governance prototypes emerging from our findings and propositions. For each, we discuss the combination of institutional attributes they encompass, their main drivers, and their main constraints (summarized in Table VI).

**Prototype 1 (P1)** – the **Classic Shareholder-oriented model** – is a well-known CG model, with strong Capital, collaborative Management-Labour relations and a Common Law permissive State. These domains complement each other in a regulatory process involving cooperation between actors involved within a network, where 'soft rules' are favoured over 'hard rules' (Mörth, 2004). This is not because the formal authority for making 'hard rules' may be lacking but mainly because the collaborative nature of the processes leads to changes in the characteristics of the rules through which regulatory policies are expressed. This prototype corresponds to the Anglo-Saxon model, with the typical characteristics of a compartmentalized NBS (Whitley, 1992) or LMEs (Hall and Soskice, 2001), and its sustainable development is heavily dependent on market capitalization size and structure.

**Prototype 2 (P2)** – the **State Capitalist Hybrid model** is driven by relatively strong Capital with relatively confrontational Management-Labour relations and an interventionist Civil Law State, e.g., France and Belgium (Goyer, 2011; Howell, 2009). The hybrid character of this prototype is reflected in the interaction between two sets of factors. First, key dimensions of CG are characterized by important similarities with those found in Anglo-Saxon economies, most notably the salience of capital markets and the protection of minority shareholders. Yet, these economies do not emphasize shareholder value as in shareholder-oriented models. Second, State activism is key in compensating for the presence of confrontational relations between Management and Labour. Policy-making in these two countries – e.g., minimum wage regulation, degree of employment protection, and legal derogations to wage agreements – has acted as a compensatory mechanism designed to overcome confrontational relations at the firm-level (Howell, 2009). Thus, the overall emphasis on shareholder value in this prototype does not occur at the expense of employees, although it is constrained by class conflict and State dependency.



**Prototype 3 (P3)** – the **Mixed Market Economies model** is characterized by lower capitalization, conflictual Management-Labour relations and an interventionist Civil Law State. This prototype can be found in less advanced economies (e.g., Eastern and Southern European countries), with relatively weaker legal standards and enforcement. The complementarities between the limited capitalization and the Civil Law tradition show how opposed (corresponding and conflicting) institutional attributes in the system result in loose norms or in a pure self-regulatory enforcement of CG best practices. Thus, in contrast with the VoC and NBS approaches, the complementarity is not as strong as it is typically claimed to be, and the degree of complementarity is context-specific, with different patterns across different settings. This highlights the path-dependent and context-specific nature of institutional interactions, thus leading to a lower degree of generalizability across contexts portrayed by this prototype.

**Prototype 4 (P4)** – the **Stakeholder-oriented Consensus model** – is driven by cooperative relations and a permissive Civil Law State. It covers Germanic and Scandinavian countries. At first glance, this seems similar to the CMEs classification (Hall and Soskice, 2001), with consensus and cooperation as its dominant attributes, seen as prerequisites of stable (long-term) economic growth. However, it actually departs from the German ideal type of coordinated market economy with a more interventionist State, since this prototype is characterized by a permissive State. The absence of the Capital domain and the more nuanced role of the State explain the more linear and less extensive development of codes in this prototype, which is culturally-bound as major corporate decisions are reached through stakeholder consensus.

Overall, our findings and configurational propositions thus not only lead to a better understanding of what determines the different features of codes but, more generally, they help identify four distinct governance prototypes which refine the traditional dichotomous view of CG models.

## DISCUSSION

In this section, we discuss our main contributions and identify areas of future research, closing with a brief conclusion. The overall goal of our study is to help move the CG debate beyond the current silo-based discussions that, by focusing primarily on individual institutional domains, have limited our understanding of CG. Instead, we contend that focusing on systemic interactions between institutional domains provides not only a more complete but also a more accurate depiction of CG, yielding a better picture of its effects for firm strategies and managerial decisions. In doing so, this study contributes to the comparative management and international governance literature on several fronts.

First, we show that a single institutional domain by itself is not sufficient to explain CG outcomes and that both actors and domains must be jointly considered. We depart from the traditional one-dimensional approach, and demonstrate that what matters in shaping CG systems is not the individual domains in isolation but their interaction. Our findings thus suggest the need for a more systemic and comprehensive approach in CG research, highlighting the stronger explanatory power of a configurational view of CG and broader management literature. For instance, it can help further our understanding of the differential impact of various stakeholders on MNE's strategic decision-making

Table VI. Institutional configurations and prototypes of corporate governance

<i>Prototype label</i>	<i>Definition</i>	<i>Underlying drivers and (constraints)</i>
<b>Prototype 1: Classic Shareholder-oriented model</b> (Configurations C2a, C2b)	<i>Proposition 1: A strong Capital domain combined with (relatively) cooperative management-labour relations and a (relatively) permissive Common Law State will generate a high diversity of issuers.</i>	Strong Capital, relative cooperative relations, relative permissive Common Law State. (Capital dependency)
<b>Prototype 2: State Capitalist Hybrid model</b> (Configurations C3a, C3b)	<i>Proposition 2a: A (relatively) strong Capital domain combined with (relative) confrontational management-labour relations and a Civil Law interventionist State will result in higher institutionalization of codes.</i>	Strong (foreign) mixed capital market, strong property rights protection, confrontational relations, interventionist Civil Law State (Class conflict and State dependency)
<b>Prototype 1: Classic Shareholder-oriented model</b> (Configurations C3c, C3d)	<i>Proposition 2b: A strong Capital domain combined with (relatively) cooperative management-labour relations and a (relatively) permissive Common Law State will result in higher institutionalization of codes.</i>	Strong Capital, relative cooperative relations, relative permissive Common Law State (Capital dependency).
<b>Prototype 3: Mixed Market Economies model</b> (Configurations N1a, N1b, N1c)	<i>Proposition 3a: A small capital market with strong property rights protection combined with confrontational management-labour relations and a Civil Law interventionist State will result in more self-regulation.</i>	Weak capital markets, confrontational relations, interventionist Civil Law State (Limited capital, class conflict and State dependency)
<b>Prototype 1: Classic Shareholder-oriented model</b> (Configurations N1d, N1e)	<i>Proposition 3b: A strong Capital domain combined with (relatively) cooperative management-labour relations and a (relatively) permissive Common Law State will result in more self-regulation.</i>	Strong Capital, relative cooperative relations, relative permissive Common Law State (Capital dependency).
<b>Prototype 3: Mixed Market Economies model</b> (Configurations N2a, N2b)	<i>Proposition 4a: A small capital market with strong property rights protection combined with confrontational management-labour relations and a Civil Law interventionist State will result in low issuance of codes.</i>	Weak capital markets, confrontational relations, interventionist Civil Law State (Limited capital, class conflict and State dependency).
<b>Prototype 4: Stakeholder-oriented Consensus model</b> (Configuration N2c)	<i>Proposition 4b: Cooperative management-labour relations combined with a Civil Law permissive State will result in low issuance of codes.</i>	Cooperative relations and consensus, permissive Civil Law State Consensus and permissiveness (Culturally-bound).

process, by underscoring the importance of institutional contexts and stressing the need to explore the implications of adopting various CG tools (Filatotchev and Wright, 2011).

Second, our configurational approach also reveals that a given CG outcome can be reached via different combinations of institutional domains. This highlights the

distinction between the adoption of a new CG practice and the achievement of a desired CG outcome, stressing the context-dependent contingency of diffusion of best practices around the world. Indeed, the fact that we find empirical evidence for equifinality in CG outcomes shows that the literature's focus on the diffusion of CG practices may underestimate that different countries can reach the same CG result through the combination of different institutional practices. This equifinality speaks to debates on convergence across national CG systems (Rasheed and Yoshikawa, 2012), since the possibility of multiple paths to the same outcome might facilitate convergence, generated by the presence of alternative, non-competing configurations. This insight offers a novel critical view of the institutional literature on comparative Capitalism, which does not explicitly distinguish between different mechanisms to reach a given outcome.

Third, our approach inductively uncovers the existence of four unique, and so far understudied, prototypes, which significantly enhance our current dichotomous conceptualization of CG models. We propose four new governance prototypes, which are all based on different configurations of institutional domains. While our goal is not to replace a dichotomous view with a four-model view, our findings suggest the need to move away from relatively simple models focused on one institutional domain, as they limit our understanding of how institutions function, and, in turn, how they influence firm behaviour. A configurational view of the stakeholder-oriented model, for instance, departs from the German stakeholder-oriented ideal type with a more interventionist State, since this prototype is characterized by a permissive State. In other terms, a configurational approach significantly refines our understanding of the different types of CG around the world.

In sum, this article builds on, nuances, and extends previous work on comparative Capitalism (Amable, 2003; Boyer, 1997; Jackson and Deeg, 2006; Whitley, 1992), by going beyond the VoC (Hall and Soskice, 2001) dichotomous one-dimensional view and advocating an institutional complementarity approach. Specifically, our findings extend on Amable's (2003) research along three main dimensions. First, in addition to identifying institutional complementarities, we show that different configurations of institutions stemming from different institutional complementarities generate similar outcomes with respect to the features of codes. Thus, unlike Amable's perspective, which starts from mechanisms that lead to different types of Capitalism (i.e., multifinality), our approach shows that the same outcome (i.e., type of Capitalism) might emerge from different configurations of mechanisms (i.e., equifinality). Second, focusing on institutions rather than on the way institutions interact with each other, as Amable (2003) advocates, leads to the conclusion that an institution will always impact the considered outcome. Our results show that the same institutions can impact an outcome differently, depending on its interactions with the other institutions. For instance, Civil Law can lead to either high or low code diversity contingent on its interactions with the other institutions. Third, Amable (2003), by focusing on one mechanism for each type of institution, makes the implicit assumption that the non-salient domain, e.g., the State intervention in the Anglo-Saxon model, simply disappears from the model. In contrast, we show that the State can actively lead to different levels of intervention (e.g., a regulator of conflictual relations in P2 or a stimulator of the socio-democratic consensus in P4), depending on

its interrelation with other institutional domains, rather than on its weakness or strength in any given context.

Methodologically, it is challenging to study cross-national empirical governance research due to the configurational and complex institutional relationships within a relatively small set of comparable countries. By developing and testing an institutional configurational approach, our study also brings significant insights for empirical configurational research. As Fiss (2007, p. 1180) notes, while the configurational logic is an attractive conceptual perspective, 'the progress of empirical research has been less than satisfying'. We employ rigorous empirical methodology to test the configurational perspective, which is attractive conceptually but more difficult to test empirically. In doing so, our QCA approach generates important insights for the CG literature, as it draws on data from 32 countries, thus contrasting with typical studies that are based on a significantly smaller sample of countries.

Finally, by examining the effect of different institutional attributes on codes, our study generates a number of important managerial and policy implications. Our findings have critical relevance for firms, which are subject to code compliance with CG expectations and which rely on codes to enhance their internal governance, thereby influencing their strategic behaviour in different countries. In some countries, codes might introduce more flexibility in firm CG regarding, for example, how to disclose compensation, whereas in other countries, firms will have to adjust more tightly to the code. Codes can assist directors and managers to be more diligent, for instance, by being able to tell a director that it is time to retire by referring to the code and its tenure recommendation<sup>[13]</sup>. As a result, external stakeholders and investors should be aware that codes around the world differ considerably in terms of their enforcement, the CG debate behind their development, and their degree of institutionalization over time. Thus, firm stakeholders are likely to use codes as a competitive advantage tool as well as a mechanism to assess governance effectiveness over their competitors.

In addition, policymakers can more effectively utilize codes for policy purposes such as minimizing investor uncertainty, provided they are aware that codes are the result of coalitions and the negotiated multiple paths to achieve good governance. The current EU policy is illustrative. Germany – as the ideal type of coordinated market economies, and often considered, as the model to follow for other countries under the German sphere of influence – does not actually fit in the stakeholder-oriented consensus prototype, i.e., our 4<sup>th</sup> prototype. Countries in this prototype share the Civil Law tradition and cooperative management-labour relations; however, in contrast to Germany, they have more permissive States and some of them have relatively large capital markets. Thus, in order to implement a desired pan-European governance policy, what matters is not sharing the same national institutions but rather how the complementarities between these institutions would facilitate or impede its implementation. Therefore, 'imposing' the German 'way of doing' governance policy to other EU coordinated markets economies may yield misleading outcomes within the EU CG harmonization efforts.

Our empirical analyses also show the continued importance of countries as a grounding unit of analysis, despite wide transnational regulatory pressures (Djelic and Sahlin-Andersson, 2006). There is evidence that EU harmonization efforts towards a

transnational code and an overall EU governance policy have not yet succeeded (Enriques, 2006). This might be in part due to the diversity of institutional domains and that their complementarities are context-specific, as we have demonstrated with institutional attributes forming different configurations.

As is the case with any academic endeavour, there are limitations to this study. First, the focus on selective features of codes is a first step in the exploration of their cross-national diversity, which can be supplemented by analysing their content. Even though the choice of characterized institutional domains fits with the relevant literature, it can always be improved (i.e., a small number of attributes selected to express institutions). Similarly, often the UK and the USA fall under the same category. Regardless of the same legal tradition and capital attributes, they have distinct characteristics in terms of the extent to which their CG systems are characterized by institutional openness with multiples points of access, e.g., with respect to lobbyists' pressures (Weaver, 1993).

Second, the voluntary nature, claimed in the literature as a key feature of codes, yields mixed results, with institutional configurations associated with more regulatory (C1 in Table III) versus self-regulation enforcement (N1 in Table V). Considering their self-regulatory practice, more regulatory enforcement goes against the original nature of codes<sup>[14]</sup>. Thus, although the comply-or-explain principle of codes is a 'universal' concept, it is not 'universally' applied in practice, e.g., in Germany some practices ('*shall* provisions') fall under this regime, whereas others ('*must* provisions') do not. The debate on voluntary self-enforcement can be extended to emerging markets with principle-principle agency type (Young et al., 2008), where different compliance mechanisms and highly politicized processes of practice-setting often produce vague and inappropriate practices (Walter, 2007). Thus, the flexible mode of self-regulation *per se* leaves the door open for different plausible national/local or firm-level interpretations of the principle.

Third, one of our three measures of institutionalization reflects the time passed since a country started discussing the first code. Although it may be interpreted as a backward-looking measure, we follow previous work (Haxhi and van Ees, 2010) and it is therefore a measure of how established or institutionalized a code is. That being said, the QCA approach does not test causality and, in order to capture the whole spectrum of institutionalization, we complement the duration of the process by two alternative measures of institutionalization, i.e., issuance and annual intensity.

In conclusion, this article is motivated by the need to demonstrate that we can better understand cross-national differences and similarities in CG practices by studying the inter-relationships between national institutions. We follow an inductive, theory-building approach based on fuzzy-set logics to uncover the configurational dynamics among institutional actor-centred domains, and their impact on CG patterns. Through an analysis of 32 OECD countries, we empirically explore necessary and sufficient causal institutional attributes leading to the development of CG codes, and we generate inductive propositions linking configurations of institutions to features of codes. We find that combined institutions exert a powerful influence on the features of codes, and that they can coalesce in different ways to produce the same outcome across countries. Our analysis leads to the proposal of refined CG prototypes, advancing current debates in comparative management research. Overall, our study thus sheds new light on the

effects of combined institutions on CG practices across different countries, thereby helping better understand firm practices and behaviour around the world.

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## NOTES

- [1] It is worth mentioning that codes are designed at three hierarchical levels: at the international level, e.g., OECD guidelines; at the national, and firm level. We are currently focusing solely on national codes since we are interested in the interrelated effect of national institutions in shaping the characteristics of CG at national level.
- [2] The Cadbury code was issued because of concern over the perceived low level of confidence both in financial reporting and in the ability of auditors to provide the safeguard which the users of the company reports sought and expected' (Cadbury, 1992). The report outlined a number of provisions on the separation of the role of the chief executive and chairman, the balanced composition of the board, selection processes for non-executive directors, transparency of financial reporting and the need for good internal controls. It established a foundation for effective CG regulation, and it provided institutional issuers with a basic medium with which to apply a new regulatory framework to CG.
- [3] Firms are allowed flexibility in applying best practices, which reflects the tolerance for firm particularities, such as ownership structures and actor (board and management) characteristics. Similarly, the *evaluation of possible deviations* and code compliance is generally left to the capital market (i.e., the negative share-price reaction should be perceived as a sanction to unexplained deviations from the code provisions), which again emphasizes the code's voluntary enforcement.
- [4] Aguilera and Jackson (2003) argue: 'we do not include the State as a stakeholder, despite cases where States have a direct influence in particular firms or industries. The State is nonetheless present in our model at the institutional level, by virtue of asserting public interest agendas and mediating conflicts among stakeholders' (p. 450).
- [5] These countries are: Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Luxemburg, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, Slovakia, Slovenia, Spain, South Korea, Sweden, Switzerland, Turkey, the UK and the USA. Chile and Estonia were excluded from the analysis because of missing data.
- [6] The calibration table of the fuzzy-set membership for all institutional attributes is available on request.
- [7] The notion of conditions that are causally central or peripheral in configurations is based on the parsimonious and intermediate solutions. Core conditions are those that are part of both parsimonious and intermediate solutions, while peripheral are those that are eliminated in the parsimonious solution and only appear in the intermediate one.
- [8] In general, the frequency threshold should be based on the number of cases included in the analysis, the knowledge of cases by researchers, the precision of calibration of fuzzy sets, among others (Ragin, 2008). Ragin (2008) suggests that when establishing a frequency threshold 'the issue is not which combinations have instances, but which combinations have enough instances to warrant conducting an assessment of the subset relationship' (p.133). Leading experts in QCA method suggest that when the total number of cases in an analysis is relatively small, the frequency threshold should be 1 or 2. When the total N is large, however, a higher frequency threshold is required for conducting the analysis of subset relations if the research sample is large, and that a good rule of thumb is to set the threshold such that 80 per cent of cases are included in the analysis (Ragin, 2008). For example, Fiss (2011) adopts a threshold of three cases in his QCA study based on a sample of 139 firms; while Bell et al. (2014) selected a frequency cut-off of four on their strong and weak country samples (N=101 and N=97 firms respectively). Therefore, in our study, the minimum acceptable solution frequency was set at one for three reasons: first, similar to previous studies with similar sample sizes (e.g., Crilly, 2011, N=52; Schneider et al., 2010, N=76,) we feel comfortable with our choice of one considering the relatively small number of

cases in our study ( $N=32$ ); second, setting a frequency threshold of one is acceptable when the aim is to build theory from a relatively small sample (Ragin, 2008), and finally, we find that if the frequency cut-off is set any higher, the selected cases would have captured less than 60 per cent of the cases, which would have been significantly lower than the indicated minimum level of 80 per cent.

- [9] The tables of results of fuzzy-set tests of necessary attributes are available from the authors on request.
- [10] Correspondence entails that actors faced with institutional patterns of a specific system lean towards choices that they have internalized and institutionalized through a coalition, whereas opposition refers to rejecting these rules of the game, trying to evade but still complying with them (Maurice and Sorge, 2000)
- [11] Besides the effect of market capitalization and protection of property rights on institutionalization (Aguilera and Cuervo-Cazurra, 2004), Haxhi and van Ees (2010) also test the effect of the legal tradition on the first issuers of codes, but the results are not supported. In addition, Zattoni and Cuomo (2008) study the effect of legal origin on institutionalization of codes and their content, while several studies explore qualitatively the voluntary nature of codes without linking it to particular institutional domains; however, none of these studies incorporates the role of the management-labour relations and the role of the State in their analysis.
- [12] We refer to less permissive State and less cooperative relations rather than interventionist State and confrontational relations, since Australia in both attributes have a fuzzy-set membership score of 0.4 (close to the cross-over point of 0.5). This means that it has a non-zero membership in the outcome; however, the score below the 0.5 threshold indicates that it cannot be considered as a positive case. This probably explains why even Australia is falling under the low category of cooperative relations and State permissiveness it is still generating a positive result on diversity of issuers and institutionalization of codes.
- [13] As an anecdotal example, we interviewed a director/board chairman from a large Dutch firm and asked: 'When has the Dutch Tabaksblat code helped you?'. The director replied, 'Once as an independent director, we had to ask a director whose term had expired to stop coming to the meetings. It was an uncomfortable situation. . . How to tell a director that it is time to go? We referred to the code and its tenure recommendation', 6 June, 2012.
- [14] This could be related to the nature and diffusion of codes for the two following reasons. First, codes as self-regulatory instrument of CG allow firms to adopt the governance practices that best fit their reality, thus, a more legally enforced code may go against the primary self-regulatory goal aiming to increase efficiency and flexibility. Second, previous studies (e.g., Haxhi and van Ees, 2010) show that codes generally develop in Common Law countries with stronger capital rights protection (as reflected in our Prototype 1), yet the majority of countries in our sample are Civil Law countries with lower issuance (as reflected in our Prototype 3), which typically trigger the diffusion of codes as a response to weak protection of investors (Aguilera and Cuervo-Cazurra, 2004). In sum, the configurations leading to this inverse outcome in a way demonstrate that this two conflicting views (captures by Prototype 1 and 3) can both exist depending on the institutional context.

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