Academy of Management

The Cross-National Diversity of Corporate Governance: Dimensions and Determinants
Author(s): Ruth V. Aguilera and Gregory Jackson
Source: *The Academy of Management Review*, Vol. 28, No. 3 (Jul., 2003), pp. 447-465
Published by: Academy of Management
Stable URL: http://www.jstor.org/stable/30040732
Accessed: 22-10-2015 04:40 UTC

Your use of the JSTOR archive indicates your acceptance of the Terms & Conditions of Use, available at http://www.jstor.org/page/info/about/policies/terms.jsp

JSTOR is a not-for-profit service that helps scholars, researchers, and students discover, use, and build upon a wide range of content in a trusted digital archive. We use information technology and tools to increase productivity and facilitate new forms of scholarship. For more information about JSTOR, please contact support@jstor.org.

Academy of Management is collaborating with JSTOR to digitize, preserve and extend access to *The Academy of Management Review.*

http://www.jstor.org

This content downloaded from 133.1.198.126 on Thu, 22 Oct 2015 04:40:32 UTC
All use subject to JSTOR Terms and Conditions

© Academy of Management Review
2003, Vol. 28, No. 3, 447–465.

THE CROSS-NATIONAL DIVERSITY OF CORPORATE GOVERNANCE: DIMENSIONS AND DETERMINANTS

RUTH V. AGUILERA
University of Illinois at Urbana-Champaign

GREGORY JACKSON
Research Institute of Economy, Trade and Industry

We develop a theoretical model to describe and explain variation in corporate governance among advanced capitalist economies, identifying the social relations and institutional arrangements that shape who controls corporations, what interests corporations serve, and the allocation of rights and responsibilities among corporate stakeholders. Our "actor-centered" institutional approach explains firm-level corporate governance practices in terms of institutional factors that shape how actors' interests are defined ("socially constructed") and represented. Our model has strong implications for studying issues of international convergence.

Corporate governance concerns "the structure of rights and responsibilities among the parties with a stake in the firm" (Aoki, 2000: 11). Yet the diversity of practices around the world nearly defies a common definition. Internationalization has sparked policy debates over the transportability of best practices and has fueled academic studies on the prospects of international convergence (Guillén, 2000; Rubach & Sebora, 1998; Thomas & Waring, 1999). What the salient national differences in corporate governance are and how they should best be conceptualized remain hotly debated (Gedajlovic & Shapiro, 1998; O'Sullivan, 2000; Pedersen & Thomsen, 1997; Prowse, 1995; Shleifer & Vishny, 1997; Thomsen & Pedersen, 2000).

In most comparisons researchers contrast two dichotomous models of Anglo-American and Continental European corporate governance (Becht & Röel, 1999; Berglöf, 1991; Hall & Soskice, 2001; La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1998).[1] They stylize the former in terms of financing through equity, dispersed ownership, active markets for corporate control, and flexible labor markets, and the latter in terms of long-term debt finance, ownership by large blockholders, weak markets for corporate control, and rigid labor markets. Yet this classification only partially fits Japan and other East Asian countries (Dore, 2000; Gerlach, 1992; Khan, 2001; Orrú, Biggart, & Hamilton, 1997; Whitley, 1992), the variations within Continental Europe (Barca & Becht, 2001; Rhodes & van Apeldoorn, 1998; Weimer & Pape, 1999; Whittington & Mayer, 2000), Eastern Europe (Martin, 1999; Wright, Filatotchev, & Buck, 1997), and multinational firms (Fukao, 1995). Despite the rich description found in this research literature, the challenge remains to conceptualize cross-national diversity and identify the key factors explaining these differences.

In this article we develop a theoretical model to identify and explain the diversity of corporate governance across advanced capitalist economies.[2] We examine corporate governance in terms

Authors are listed alphabetically. We are grateful for comments at various stages from Christina Ahmadjian, Joseph Broschak, Albert Cannella, John Dencker, Mauro Guillén, Ryoko Hatomoto, Martin Hoepner, Matthew Kraatz, John Lawler, Huseyin Leblebici, Joseph Mahoney, David Stark, Wolfgang Streeck, Charles Tilly, Kotaro Tsuru, Yukiko Yamazaki, three anonymous reviewers, and seminar participants at the University of Illinois.

[1] The Anglo-American model is also labeled the outsider, common law, market-oriented, shareholder-centered, or liberal model, and the Continental model the insider, civil law, blockholder, bank-oriented, stakeholder-centered, coordinated, or "Rhineland" model.

[2] Our model presumes moderate economic development and an established "rule of law."

This content downloaded from 133.1.198.126 on Thu, 22 Oct 2015 04:40:32 UTC
All use subject to JSTOR Terms and Conditions

of three stakeholder groups: capital, labor, and management. In our model we first identify key dimensions that describe the variations in the identities and interests of each stakeholder toward the firm. Subsequently, we explain cross-national diversity in terms of institutional configurations that shape how each stakeholder group relates to firm decision making and control over resources. We offer propositions that describe (1) how a country's property rights, financial system, and interfirm networks shape the role of capital; (2) how a country's representation rights, union organization, and skill formation influence the role of labor; and (3) how a country's management ideology and career patterns affect the role of management. In the Discussion section we examine how different *configurations* of institutions support different sorts of *interactions* among stakeholders in corporate governance.

Our sociological approach is inspired by *actor-centered institutionalism* (Scharpf, 1997) in stressing the interplay of institutions and firm-level actors. This model bridges the gap between *undersocialized* agency theory approaches and *oversocialized* views of institutional theory. We argue that agency theory fails to sufficiently explore how corporate governance is shaped by its institutional embeddedness. Conversely, by stressing how national "models" embody a coherent institutional logic, institutional theory leans toward an *oversocialized* perspective too abstract from the conflicts and coalitions between stakeholders at the firm level. Consequently, we explain cross-national diversity in corporate governance by specifying and integrating the various institutional mechanisms shaping stakeholders' roles at the firm level.

Thus, we make several contributions to comparative research. First, unlike bipolar typologies, our model more accurately maps national diversity, because it disaggregates various dimensions of corporate governance. Second, rather than posit one institutional domain as the "prime mover," we argue that multiple institutions exert interdependent effects on firm-level outcomes. Third, we suggest several implications for comparative research regarding institutional interdependencies, stakeholder interactions, and convergence debates.

SHIFTING PARADIGMS: FROM AGENCY TO EMBEDDEDNESS

Researchers traditionally study corporate governance within the framework of agency theory, viewing the modern corporation as a nexus of contracts between principals (risk-bearing shareholders) and agents (managers with specialized expertise). Given the potential separation of ownership and control (Berle & Means, 1932), various mechanisms are needed to align the interests of principals and agents (Fama, 1980; Fama & Jensen, 1983; Jensen & Meckling, 1976). Shareholders assumably maximize returns at reasonable risk, focusing on high dividends and rising stock prices. Conversely, managers may prefer growth to profits (empire building may bring prestige or higher salaries), may be lazy or fraudulent ("shirk"), and may maintain costly labor or product standards above the necessary competitive minimum. Agency costs arise because shareholders face problems in monitoring management: they have imperfect information to make qualified decisions; contractual limits to management discretion may be difficult to enforce; and shareholders confront free-rider problems where portfolios are diversified, thereby reducing individual incentives to exercise rights and creating preference for exit (Eisenhardt, 1989).

Comparative corporate governance is usually conceived of in terms of the mechanisms available to minimize agency problems (Shleifer & Vishny, 1997). For example, the United Kingdom and United States are characterized by dispersed ownership where markets for corporate control, legal regulation, and contractual incentives are key governance mechanisms. In continental Europe and Japan, blockholders such as banks and families retain greater capacity to exercise direct control and, thus, operate in a context with fewer market-oriented rules for disclosure, weaker managerial incentives, and greater supply of debt. But why are agency problems addressed in such different ways? Left unqualified, agency theory fails to account for key differences across countries. We argue that this deficit reflects an undersocialized view of corporate governance that leaves three interrelated gaps in comparative research.

First, the theoretical assumptions within agency theory overlook the diverse identities of stakeholders within the principal-agent rela-

This content downloaded from 133.1.198.126 on Thu, 22 Oct 2015 04:40:32 UTC
All use subject to JSTOR Terms and Conditions

tionship. Different types of investors (such as banks, institutional investors, families, etc.) pursue different interests, particularly when investors are themselves organizations governed by institutionally defined rules. Moreover, scholars give no serious attention to the varied interests of managers across countries. Comparative research must address this "social construction" of interests (Maurice, Sellier, & Silvestre, 1986).

Second, agency theory overlooks important interdependencies among other stakeholders in the firm (Freeman, 1984) because of its exclusive focus on the bilateral contracts between principals and agents—a type of *dyadic reductionism* (Emirbayer & Goodwin, 1994). Agency theorists treat employment relations as exogenously determined by labor markets, despite the employee voice within corporate boards of many European firms.[3] Similarly, interfirm ownership may create networks that condition business competition, cooperation, and innovation (Whitley, 1999). Hence, corporate governance is ultimately the outcome of interactions among multiple stakeholders. For instance, markets for corporate control may serve shareholders by reducing unprofitable investments, but they may also face resistance from employees who fear breaches of trust concerning their firm-specific investments.

Finally, agency theory retains a thin view of the institutional environment influencing corporate governance (Lubatkin, Lane, Collin, & Very, 2001). Despite recent debates over shareholder rights, researchers define institutions narrowly (Roe, 2000). Shareholder rights do not capture the entire complexity of institutional domains by limiting actors' financial behavior to the effects of law (La Porta, Lopez de Silanes, & Shleifer, 1999). Firms must adapt to multiple features of their environment (Fligstein & Freeland, 1995), and their behavior is unlikely to be explained by a single force such as agency costs. Thus, corporate governance needs to be understood in the context of a wider range of institutional domains (Aoki, 2001).

Hence, the unmet theoretical challenge, in comparative studies, remains to conceptualize corporate governance in terms of its *embeddedness* in different social contexts (Dacin, Ventresca, & Beal, 1999; Granovetter, 1985). Embeddedness stresses that economic action is also social action oriented toward others (Weber, 1978) and may be constrained by noneconomic objectives or supported by noneconomic social ties (Streeck, 2002). Social relations are the fundamental unit of analysis, rather than ontological actors, frozen in space and time and isolated from social and cultural context.

COMPARATIVE INSTITUTIONAL ANALYSIS

Institutional theory complements *undersocialized* views of corporate governance by addressing the embeddedness of corporations in a nexus of formal and informal rules (North, 1990).[4] Institutional researchers have critiqued agency theory by showing how politics shape corporate governance (Fligstein, 1990; Roe, 1994; Roy, 1997), and in much comparative work researchers now assert that national diversity reflects various institutional *constraints* stemming from coercive political regulation (Roe, 1994), imitation of cognitive models in response to uncertainty (Dobbin, 1994), or other normative pressures to establish legitimacy (Biggart, 1991; Hamilton & Biggart, 1988). Institutions may also create opportunities for specialization around diverse economic "logics" and thereby yield *comparative institutional advantages* for different business systems (Whitley, 1999) or varieties of capitalism (Hall & Soskice, 2001). Where institutional environments are *nationally* distinct, isomorphic processes drive corporate governance practices to become more similar within countries and to differ across countries.

Despite a growing consensus that "institutions matter," *comparative* institutional analysis remains in its infancy. Comparing and explaining cross-national diversity require systematic specification of what institutions matter and how they shape corporate governance. For example, Orrú et al. (1997) describe countries in terms of a single overarching institutional logic, such as the emphasis on "community" in Japanese firms, and neglect to specify institutional-organizational linkages. Other au-

[3] Organizational theories "made in the USA" often assume universality, despite having only limited application in non-U.S. institutional contexts (Doktor, Tung, & von Glinow, 1991).

[4] For a discussion of different institutionalisms, see Powell and DiMaggio (1991), Thelen (1999), Scott (2001), and *Academy of Management Journal* (2002).

This content downloaded from 133.1.198.126 on Thu, 22 Oct 2015 04:40:32 UTC
All use subject to JSTOR Terms and Conditions

thors argue that various institutional elements may tend to reinforce each other and lead countries to cluster along a few coherent types of corporate governance (Hall & Soskice, 2001).

We claim that these comparisons run the danger of presenting an implicitly oversocialized perspective that views institutional effects too broadly. The interactions among stakeholders at the firm level largely recede, and the coherence of national models is overstylized. Hence, we propose that comparative analysis must be able to better integrate the study of different institutional domains and how, in turn, these domains shape stakeholder interests and their interactions within corporate governance. In this spirit, Aoki states that "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: 18). This oversight results in deficits in explaining why different countries develop distinct patterns of corporate governance.

Our approach to institutional analysis is therefore consciously "actor centered" (Scharpf, 1997). We view institutions as influencing the range of effects but not determining outcomes within organizations. Institutions shape the social and political processes of how stakeholders' interests are defined ("socially constructed"), aggregated, and represented with respect to the firm. However, institutions themselves are the result of strategic interactions in different domains, generating shared beliefs that, in turn, impact those interactions in a self-sustaining manner (Aoki, 2001). The task for our actor-centered model, thus, is to specify how the role of each stakeholder toward the firm is shaped by different institutional domains and thereby generates different types of conflicts and coalitions in corporate governance.

We conceptualize corporate governance as the relationships among stakeholders in the process of decision making and control over firm resources.[5] At the firm level our model focuses on three critical stakeholders—capital, labor, and management—as shown in Figure 1. 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. National diversity has its origins in such politics of institutional development (Jackson, 2001; Roe, 1994).

In the next three sections we define in detail the various dimensions of how each stakeholder group relates to the firm. We then develop an actor-centered institutional model that specifies the institutional mechanisms shaping cross-national variation in corporate governance. We rely on the existing empirical research literature to identify the most *critical* institutional domains and develop a series of propositions describing their direct impact on capital, labor, and management. These institutional domains are analytically separable but have ultimately interdependent effects on stakeholders, as shown in Figure 2. We aim to integrate a variety of different institutional domains and stakeholder dimensions into a synthetic model.

Capital in the Corporate Governance Equation

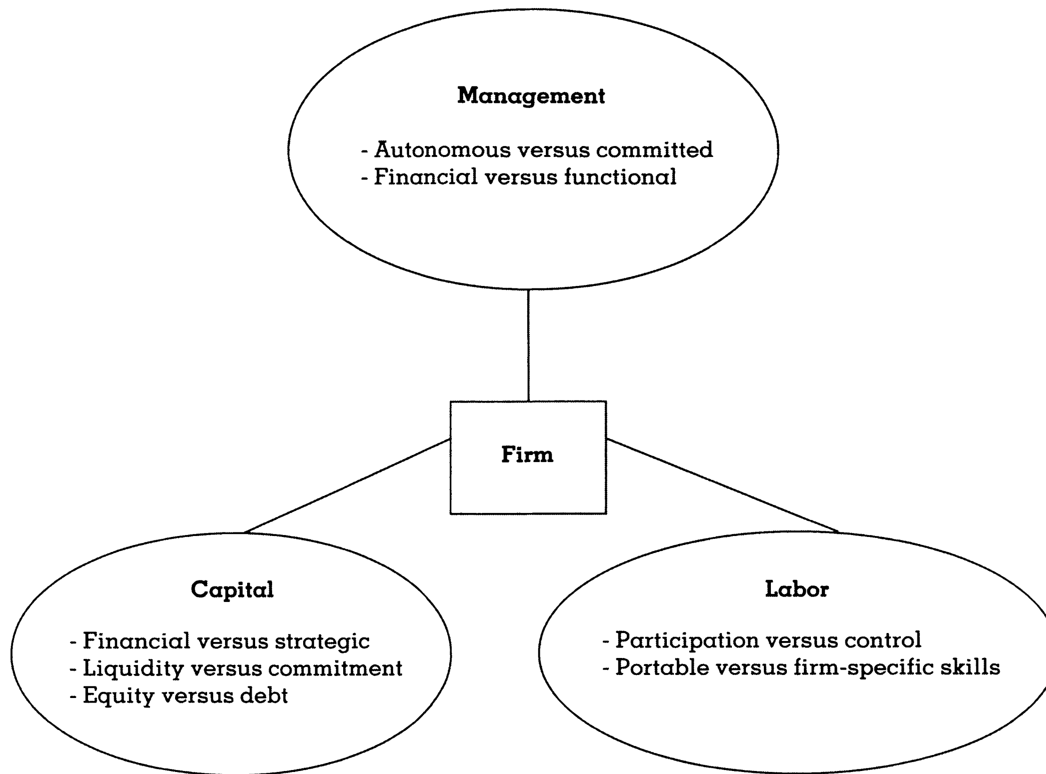
Capital is the stakeholder group that holds property rights, such as shareholders, or that otherwise makes financial investments in the firm, such as creditors. Agency theorists largely view capital as shareholders (principals) whose interests are homogeneous functions of risk and returns. Comparisons focus on the degree of ownership concentration (La Porta et al., 1999), where concentrated ownership leads to stronger external influence on management while fragmentation tends to pacify shareholder voice. Less attention has been given to the fact that various types of capital (e.g., banks, pension funds, individuals, industrial companies, families, and so forth) possess different identities, interests, time horizons, and strategies. To map this diversity, we define three dimensions along which the relation of capital to the firm varies: (1) whether capital pursues financial or strategic interests, (2) the degree of commitment or liquidity of capital's stakes, and (3) the exercise of control through debt or equity.

A first distinction can be made between capital's *financial interests* and *strategic interests*. Financial interests are predominant when in-

[5] The firm itself may be defined as a collection of resources embedded in a network of relationships among stakeholders.

This content downloaded from 133.1.198.126 on Thu, 22 Oct 2015 04:40:32 UTC
All use subject to JSTOR Terms and Conditions

FIGURE 1
Dimensions of Corporate Governance



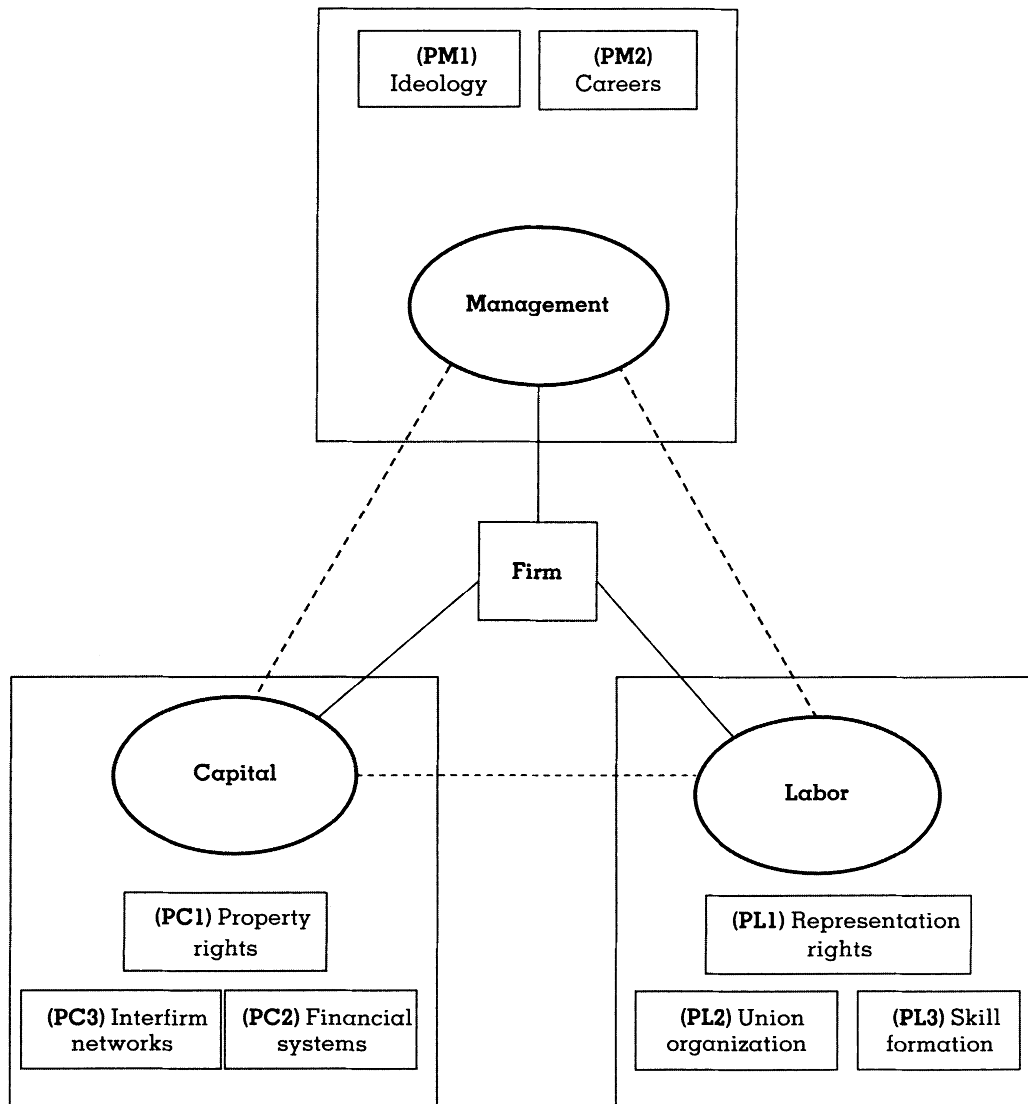
vestment is motivated by the prospect of financial return on investment. Individuals and institutional investors generally follow investment strategies attempting to maximize the market value of their shares, as well as their dividend payouts (Dore, 2000; O'Sullivan, 2000). In contrast, strategic interests are prevalent when investment is motivated by nonfinancial goals, such as control rights. When shareholders are other firms rather than individuals, salaried managers exercise property rights on the basis of their bureaucratic authority. Thus, banks and corporations typically use ownership stakes as a means to pursue the strategic interests of their organizations: regulating competition between firms, underwriting relational contracts, securing markets, managing technological dependence, and protecting managerial autonomy from outside shareholders.

A second dimension of capital concerns the degree of *liquidity* or *commitment*. Both creditors and owners face an underlying trade-off between the capacity for control through voice and the ability to exit (Becht & Röel, 1997; Hirschman, 1970). Liquidity refers to the ability of owners to exit by selling their stakes without a loss of price. For shareholders, liquidity reflects fragmented ownership, diversified portfolios, and deep security markets. Liquid shareholders prefer strategies of exit rather than voice to monitor management. In contrast, commitment involves dependence on firm-specific assets to generate returns, as well as the ability to control appropriation of those returns (Lazonick & O'Sullivan, 1996). Commitment is often related to increasing ownership concentration, since disposal of larger stakes becomes more difficult and may lock in investors. A similar logic can be applied to debt contracts when contrasting relationships between banking and securitized forms of debt.

A last dimension of capital involves the familiar distinction between *debt* and *equity*. Equity ownership and debt involve divergent risks and mechanisms of control (Blair, 1995; Jensen & Meckling, 1976), leading to different interests in the relative mix of debt and equity. Creditors have few rights of control until the point of in-

This content downloaded from 133.1.198.126 on Thu, 22 Oct 2015 04:40:32 UTC
All use subject to JSTOR Terms and Conditions

FIGURE 2
Institutional Domains Shaping Corporate Governance



solvency, but receive a fixed income from interest. Thus, creditors tend to be risk averse and favor stable corporate growth over maximum profits. Conversely, owners face larger residual risks and possess greater control rights, but lose control during bankruptcy. Owners often prefer debt to equity as a way to maintain the value of their shares by leveraging higher earnings and not diluting their rights through issues of new stock. Different sorts of contingencies trigger control of the firm. Debt and equity claims are sometimes commingled, such as by universal banks that use securities to underwrite debt or to swap during company reorganizations.

These three dimensions defining how capital relates to the firm go beyond bipolar typologies of corporate governance. For example, we can distinguish between two "Rhineland" countries with high ownership concentration but different strategic interests, such as Italy and Japan. Family ownership in Italy is less motivated by strategic interests than owners/investors in Japan (Best, 1990). We now introduce three institutional domains of capital (property rights, type of financial system, and interfirm networks) and specify the institutional mechanisms that influence the described characteristics of capital across countries.

This content downloaded from 133.1.198.126 on Thu, 22 Oct 2015 04:40:32 UTC
All use subject to JSTOR Terms and Conditions

Property rights. Property rights constitute complex legal and economic constructions (Alchian & Demsetz, 1973) established through corporate law, bankruptcy law, and contractual articles of incorporation. Property rights define mechanisms through which shareholders (capital) exert control, such as information exchange and voting rights, and how control is balanced with managerial discretion. While countries are often distinguished as having strong or weak shareholder rights (La Porta et al., 1998), property rights shape capital specifically by establishing rights that favor different types of shareholders.

For example, veto rights may allow small stakes to achieve disproportional influence, or voting caps may curtail the power of large stakes. Likewise, mandatory information disclosure favors small investors, whereas larger and more committed investors may enjoy advantages of private information. We illustrate such differences by contrasting how property rights in Germany, Japan, and the United States shape the means of capital's control in the firm.

Japanese law follows a *shareholder sovereignty* model, where shareholders' general meetings retain broad powers and voting rights reflect a majority principle. Yet Japan has few protections for minority shareholders and weak information disclosure requirements to address collective action problems in corporate control. These features reduce the liquidity of capital and weaken the position of financial interests within Japanese corporations.

In Germany, protection of minority shareholders is similarly weak. But, unlike Japan, Germany's *constitutional* model legally mandates two-tier board structures wherein substantial control rights are delegated from general shareholder meetings to a supervisory board (*Aufsichtsrat*). Separating the supervisory function from both management and shareholders strengthens external monitoring. The supervisory board tends to give disproportionate power to large blockholders and facilitate their commitment. By anchoring this capacity for blockholder control, property rights favor strategic interests within corporate governance.

Finally, the United States exemplifies a *liberal market* approach facilitating market-oriented mechanisms of control. Liberal property rights provide strong minority shareholder protection owing to relatively high disclosure requirements and norms of one-share-one-vote. Property rights thus create incentives to pursue greater capital liquidity and gravitate against strategic interests by discouraging disproportionate control through blocks. Hence, property rights shape the degree of capital's control in the firm, thereby favoring different dominant interests within corporate governance.

> *Proposition C1a: In countries with property rights predominantly favoring large shareholders,* capital *tends to pursue* strategic *interests toward the firm and exercise control via* commitment.

> *Proposition C1b: In countries with property rights predominantly protecting minority shareholders,* capital *tends to pursue* financial *interests toward the firm and exercise control via* liquidity.

Financial system. Financial systems influence the relation of capital to the firm by shaping the supply-side capacity to provide diverse sources of finance and thereby generate different patterns of control. The two major alternatives for financial mediation between households and enterprises are bank based or market based (Berglöf, 1991; Zysman, 1983). In bank-based financial systems, banks are the key financial institutions, mediating deposits from households and channeling them into loans made directly to firms (e.g., Germany and Japan). Besides the close relationships between banks and industrial corporations, these systems tend to have small and underdeveloped capital markets that reinforce higher firm dependence on debt. Financing through bank loans entails close capital monitoring and contingent control of the firm, thus inducing capital's long-term commitment.

In market-based financial systems, households invest in companies' publicly issued equity (stocks and bonds), thereby expanding the size and liquidity of capital markets and leaving the primary monitoring role to institutional investors and other shareholders (e.g., United States and United Kingdom; Steinherr & Huveneers, 1994). Market-based systems encourage equity finance through active capital markets in which shareholders invest chiefly to pursue financial interests. They hold control over the firm

This content downloaded from 133.1.198.126 on Thu, 22 Oct 2015 04:40:32 UTC
All use subject to JSTOR Terms and Conditions

by having the option to exit (via liquidity) if the firm no longer fulfills their interests.

Financial systems' characteristics are closely linked to the forms of regulation over financial institutions. For example, banks' capacity to engage in business lending developed historically, through a variety of institutions favoring certain forms of savings (on the household side) and supporting the extension of long-term liabilities (on the bank side). Also, pension assets constitute a large portion of household financial claims, and, thus, the mix of public versus private pensions is another key feature differentiating countries (Jackson & Vitols, 2001). In sum, financial systems influence corporate governance through their capacity to provide different sources of capital and to affect the relationship with the firm.

> *Proposition C2a: In countries with predominantly bank-based financial systems,* capital *tends to exercise control over the firm via* debt *and* commitment.

> *Proposition C2b: In countries with predominantly market-based financial systems,* capital *tends to exercise control over the firm via* equity *and* liquidity.

Interfirm networks. The relationship of capital to the firm is also shaped by the structure of interfirm networks, which influences firm behavior through access to critical resources and information (Burt, 1983; Davis & Mizruchi, 1999; Windolf, 2002). While firms may establish many types of ties, an intriguing aspect for capital is differences in the overlap of networks of capital ties (ownership and credit) with other business ties—a property known as network *multiplexity*.

In countries with multiplex networks, such as Germany, Japan, and Spain, ownership stakes often overlap with supplier relations, board representation, and the commingling of debt and equity claims (Aguilera, 1998; Windolf & Beyer, 1996). Multiplex ties reinforce the commitment of capital by making exit more costly, particularly given a high degree density of relationships between firms. In Japan, reciprocal cross-shareholding creates "mutual hostages" that reinforce commitments within the group and dampen external influence (Lincoln, Gerlach, & Takahashi, 1992). Moreover, multiplex networks often give stronger voice to strategic interests of business partners within corporate governance. Dense interlocks of board directorates may increase the propensity to cooperate (Mizruchi & Stearns, 1988) and to discover common strategic interests.

In contrast, U.S. or British firms form much looser networks and tend not to build as many multiplex relationships, in part because of antitrust regulation (Davis & Greve, 1997; Fligstein, 1990). Given the institutional separation of different types of markets, capital ties tend to be dominated by purely financial interests. Likewise, the lower density of these networks allows capital to exit the relationship through liquidity. Multiplexity thus influences capital interests by building linkages that bundle or segregate distinct domains of business relations.

> *Proposition C3a: In countries with a high degree of multiplexity in interfirm networks,* capital *tends to pursue* strategic *interests toward the firm and exercise control via* commitment.

> *Proposition C3b: In countries with lower degrees of multiplexity in interfirm networks,* capital *tends to pursue* financial *interests toward the firm and exercise control via* liquidity.

Labor in the Corporate Governance Equation

The corporate governance literature largely neglects employees (Blair & Roe, 1999; Parkinson & Kelly, 2001). This omission partly reflects weak employee participation in the United States relative to that in economies such as Germany or Japan, where labor participation is politically important and often a source of competitive advantage (Brown, Nakata, Reich, & Ulman, 1997). In addition, a major assumption of agency theorists is that shareholders are the only bearers of ex post residual risk, and, thus, employee interests are treated only as an exogenous parameter.

Alternatively, corporate property rights can not only be seen as a basis for control over material assets but also as establishing an authority relationship with employees. As Bendix observes, "Those in command cannot fully control those who obey" (1956: 45). Given the contingencies of the labor contract, effective authority requires legitimacy to promote the goodwill of employees and to supplement their "zone of ac-

This content downloaded from 133.1.198.126 on Thu, 22 Oct 2015 04:40:32 UTC
All use subject to JSTOR Terms and Conditions

ceptance" (Simon, 1976). Despite the formal legal equality of employers and employees in the labor contract, the substantive asymmetries in power have led to persistent conflicts over legitimate managerial authority.

We therefore conceptualize employees' role in corporate governance in terms of their ability to influence corporate decision making and to control firms' resources. Rules limiting managerial authority can be created through many sets of functionally equivalent mechanisms (Marsden, 1999; Tilly & Tilly, 1998): shop floor–level job control, collective bargaining, multiemployer collective bargaining, and labor law. Our model focuses on two critical dimensions defining employees' relationship to corporate decision making: (1) strategies of internal participation versus external control and (2) portable versus firm-specific skills.

Comparative industrial relations distinguishes between employee strategies of *external control* versus *internal participation* (Bamber & Lansbury, 1998). This dimension describes how employees define their interests in relation to corporate decision making. External control refers to situations where decision making remains the prerogative of management (Hondrich, 1970). Here employees seek to control firms' decisions externally, with the threat of collective action (e.g., strikes). Labor stresses the separation of responsibility, and clear "fronts" are maintained. Employee representation is "independent" of management and preserved in strict separation from cooperative institutions that engage labor in firms' decision making.

Alternatively, employees might participate in firms' decisions through internal channels of decision making to codetermine management actions (Nagels & Sorge, 1977; Streeck, 2001). Participation does not end managerial authority but aims at democratizing decisions. Internal participation tends to have strong integrative functions, fostering consensus and cooperation in the implementation of decisions (Rogers & Streeck, 1994).

Labor also differs in the degree to which it may easily exit the firm without penalty in the labor market. When employee skills are *portable* across firms or investments in skills are low, employees may favor exit over voice in response to grievances. Conversely, when employee skills are *firm specific*, their greater dependence on the firm makes the option to exit more difficult (Williamson, Watcher, & Harris, 1975). Investments in firm-specific skills thus create incentives to exercise voice in how those skills are formed and deployed. In particular, employees may have a long-term vested interest in safeguarding the organization and their job security. Therefore, similar to the liquidity or commitment of capital, skills influence the degree to which employees have a "stake" in the firm.

We argue that the degree of internal participation/external control and portable/firm-specific skills within the firm is shaped by three sets of institutions: (1) the representation rights given to workers, (2) the organization of unions, and (3) the institutions of skill formation.

Firm-level representation rights. Unlike property rights that granted shareholders individual rights in firm decisions, labor historically struggled to gain collective rights to representation in firm decisions. The recognition of the "right to organize" is perhaps the most fundamental of these, giving employees individual rights to voluntarily elect their own representation and compelling management to bargain over a prescribed range of issues. However, representation rights vary greatly in their strength and scope (Locke, Kochan, & Piore, 1995), ranging from rights to information, consultation, and codetermination. Such rights also differ according to the type of decision at hand and the source enacting the rights.

Representation rights may rest upon diverse degrees of coercion, such as unilateral employer action, collective bargaining, or law. First, unilateral decisions made by the employer to grant representation describe the "paternalistic" patterns historically common in many countries—patterns that often led to conflicts with independent labor unions seeking worker loyalty. Second, representation rights can also be established contractually through collective bargaining, such as in Japan, where extensive joint consultation practices are written into collective agreements as a basis for firms' decision making. Finally, statutory law or direct state intervention may establish employee representation, as with German codetermination.

Representation rights influence labor's relation to corporate governance. In terms of representation rights' strength, industrial relations researchers use a conventional gradation, from weak to strong forms of intervention: rights of information, consultation, codetermination, and

This content downloaded from 133.1.198.126 on Thu, 22 Oct 2015 04:40:32 UTC
All use subject to JSTOR Terms and Conditions

unilateral worker control (Knudsen, 1995: 8–13). An institutional setting with weak representation rights, such as in the United States, does not provide internal channels to represent employees within firms' decision making. Managerial prerogative remains strong, and organized labor must respond largely ex post to mitigate any negative consequences of managerial decisions or mobilize collective action to halt management action. Institutional settings characterized by strong representation rights, such as in Germany, provide formal internal channels to give labor a voice in the firm's decision making by providing legal rights to information, consultation, and codetermination in key decisions.

Employee ownership is a further means of establishing representation rights, but through the alternate channel of property rights. Increasingly, unions have pursued such strategies by using voting rights attached to pension funds or stock options to exercise voice.

In sum, representation rights will influence labor's control over the firm's decisions.

> *Proposition L1a: In countries with predominantly strong representation rights,* labor *tends to pursue strategies of internal* participation.

> *Proposition L1b: In countries with predominantly weak representation rights,* labor *tends to pursue strategies of external* control.

Union organization. Researchers define employee interests in relation to their individual and collective identities, as well as according to how their interests are organized and institutionalized. Union organization generally can be differentiated along three ideal types: (1) class, (2) occupation, and (3) enterprise models (Dore, 1973; Streeck, 1993). These models often get combined within countries or coexist with large, unorganized segments of the economy. For example, the U.S. case is internally heterogeneous, having craft union, industrial union, and unorganized sectors. Regarding corporate governance, we examine how unions influence employee orientation toward internal participation in corporate decisions or external control.

Strategies of external control are common among craft unions or industrial unions, where employee solidarity is not restricted to workers within a particular enterprise and union members may find employee identification with a particular firm a threat to their own interests. *Class-based* unions, such as political unions and industrial unions, tend to favor strategies of external control. Industrial unions generally have been skeptical toward participatory institutions that blur the boundaries of management and labor. These unions are likely to favor centralized collective bargaining that restricts the discretion of individual firms through external control. Participation appears only as a remote political agenda related to state ownership.

Similarly, *craft-based* unions organized around particular sets of qualifications tend to endorse external strategies of control, because their interests are linked to adequate and uniform compensation of their particular skill/professional qualifications across enterprises. Organizationally, craft unions may fragment representation within firms and may follow their members' collective interests, regardless of the fate of individual firms.

In contrast, *enterprise-based* unions recruit members among employees within a particular firm and tend to support internal participation. Enterprise unions aim primarily at the preservation of long-term employment contracts and the regulation of internal promotion prospects. They are likely to have a strong, common interest in improving their own firm competitiveness, in order to guarantee prospects of growth and stable employment. Japan's large firm sector comes close to this ideal type. Japanese enterprise unions seek to participate in firm decisions, because these unions represent a relatively homogeneous group of core employees within the firm, whose primary interest is preserving job security within the firm's internal promotion system (Brown et al., 1997). Hence, union organization will shape the relation of labor to the firm.

> *Proposition L2a: In countries with predominantly class-based and craft-based unionism,* labor *tends to pursue strategies of external* control.

> *Proposition L2b: In countries with predominantly enterprise-based forms of unionism,* labor *tends to pursue strategies of internal* participation.

Skill formation. Skill formation directly affects corporate governance, because the portability or firm-specific nature of skill investments influ-

This content downloaded from 133.1.198.126 on Thu, 22 Oct 2015 04:40:32 UTC
All use subject to JSTOR Terms and Conditions

ences the relation of employees to the firm. Skill formation institutions are subject to considerable national variation (Brandsma, Kessler, & Münch, 1996; Finegold & Soskice, 1988; Locke et al., 1995; Sorge, 1990). A landmark comparative study identifies five main skill formation institutions that provide skills: (1) state provision, (2) free markets, (3) institutional companies, (4) firm networks, and (5) corporatist associations (Crouch, Finegold, & Sako, 1999). Firms may become free riders in appropriating skills that they have not helped generate, thus leading to a high potential for market failure (Huselid, 1995). Meanwhile, direct state provision may help overcome this dilemma, yet leave a considerable gap between training provided and skills demanded from firms (Boyer, 1988).

In the United States, a mix of on-the-job training and markets is used to generate employee skills (Brown et al., 1997). The undersupply in skills, particularly among production workers, is closely related to high employee turnover and strategies of control in representing employee interests (Freeman, 1994). In high-skill segments of the U.S. economy, firms also draw on the portable skills of professional employees whose skills were acquired outside the firm. Skill formation outside the firm will make the firm less dependent on employees, and, hence, employees will have less capacity to influence firm decisions through internal channels. However, one caveat is that high-tech venture capital firms tend to experiment with various forms of internal participation for professional employees to minimize their external mobility.

Germany and Japan both have strengths in generating highly skilled production workers, although they have undertaken quite distinct solutions in setting up employer incentives to invest in employee training (Culpepper & Finegold, 1999; Thelen & Kume, 2002). In Japan, training is segmented in firms investing in firm-specific skills, which reward employees with elaborate internal promotion systems. Here, skill formation reinforces employee strategies of internal participation in firm's decisions (Dore, 2000). Germany is an interesting intermediate case, where a solidaristic training system is rooted in corporatist arrangements among employer associations, industrial unions, and the state. Firms participate in occupational training to create publicly certified skills that are portable across firms. Firms' involvement in skill creation assures high levels of training. Skill formation outside the firm will make the firm less dependent on employees, and, hence, employees will have less capacity to influence firm decisions through internal participation.

> *Proposition L3a: In countries with predominantly market- and state-based skill formation institutions,* labor *tends to acquire* portable skills *and to pursue strategies of external* control.

> *Proposition L3b: In countries with predominantly firm-based skill formation institutions,* labor *tends to acquire* firm-specific skills *and to pursue strategies of internal* participation.

Management in the Corporate Governance Equation

Managers are the stakeholders occupying positions of strategic leadership in the firm and exercising control over business activities (Chandler & Daems, 1980). Given the complexity of managerial hierarchies in different countries (Lane, 1989), we limit our discussion to top management.

Heated debates revolve around whether managers deserve to be vilified—agency theory—or glorified—strategic leadership (Cannella & Monroe, 1997). Finkelstein and Hambrick (1996) point out that managerial control is contingent on the amount of *managerial discretion* present, given the existence of environmental constraints. Even in the case where self-interest is the primary goal behind managerial behavior, there might be other contextual motivations driving self-serving tendencies (Ghoshal & Moran, 1996). Thus, it is important to revisit and account for the diverse roles of management (Barnard, 1938; Guillén, 1994; Jackell, 1990).

In this section we examine two dimensions of managers' identities and interests in relation to the firm. First, borrowing from stewardship theory (Davis, Schoorman, & Donaldson, 1997), we differentiate between the *autonomy* versus *commitment* of managers toward the firm. Autonomous managers experience a large degree of independence from specific relationships within the firm. These managers may find it easier to "make tough decisions" or to impose hierarchical control in the firm. In contrast, committed

This content downloaded from 133.1.198.126 on Thu, 22 Oct 2015 04:40:32 UTC
All use subject to JSTOR Terms and Conditions

managers are dependent on firm-specific relationships to pursue their interests.

The second dimension refers to the *financial* versus *functional* orientation of managers. Financial conceptions of managerial control refer to a strong separation of strategic and operational management and the execution of firm control via financial mechanisms. Functional conceptions of managerial control refer, rather, to a greater integration of operational functions, either through technical specialization or through strong personal involvement and leadership.

These dimensions of management in corporate governance are influenced by a variety of institutions constituting the complex "social world" of management. We bundle these institutions in terms of the ideologies of managerial control and managerial career patterns.

Ideology. Goll and Zeitz describe managerial ideology as "the major beliefs and values expressed by top managers that provide organizational members with a frame of reference for action" (1991: 191). We use this construct to show how managers legitimate their authority, perceive organizational problems, and justify their actions (Bendix, 1956). Ideologies may diffuse through mimetic processes, such as managerial education; normative processes emerging from collective experience, such as the establishment of professional groups; or coercion from outside agencies, such as the state (Guillén, 1994; Powell & DiMaggio, 1991).

Ideology is an institutional variable that influences management both by imposing constraints as taken-for-granted world views and by creating normative expectations that become "focal points" for firm decision making. We do not provide a typology to encompass the diversity of managerial ideologies, such as German corporatism, the French cadre system, or British laissez-faire (Egan, 1997), or national cultures (Hofstede, 1997). We limit our discussion to their effects in providing value-based legitimation to managerial authority. Specifically, we argue that ideologies impact the financial or functional orientation of managers by legitimating different ways of viewing and reconciling firm interests. Furthermore, ideologies impact the autonomy or commitment of managers by shaping the degree of hierarchy or consensus in routine decision making.

The legitimacy of managerial goals depends on managers' different world views, influenced by their educational backgrounds and the diffusion of cognitive models of control among them. For example, U.S. managers typically receive education in "general" management, with a strong emphasis on finance. The diffusion of shareholder value as management ideology in the last decade reinforces the power of financial orientations within the firm (O'Sullivan, 2000). In contrast, German managers typically hold Ph.D. degrees in technical fields such as engineering or chemistry. German management ideology has traditionally stressed *Technik*—achieving technical excellence as managers' central goal (Lawrence, 1980). German managers thus tend to adopt a corporatist or pluralistic view of the firm as serving multiple constituents. These factors lean away from pursuing merely financial interests and toward strengthening functional orientations.

Another element of ideology is the informal routines and norms that shape the autonomy or commitment of management. Despite their different emphasis on financial versus functional management, the United States and France are similar in that decision making tends to be hierarchically structured, thereby reinforcing managerial autonomy. Conversely, the legal principle of collegiality in German boards gravitates against strong individual dominance to principles of consensus that foster managerial commitment to organizational relationships and constituencies. These variations in managerial ideology across countries suggest the following.

> *Proposition M1a: In countries where managerial ideologies legitimate generalist knowledge and/or hierarchical decision making,* management *tends to have greater* autonomy *in relation to the firm and a* financial *orientation.*

> *Proposition M1b: In countries where managerial ideologies legitimate scientific specializations and/or consensual decision making,* management *tends to have greater* commitment *to the firm and a* functional *orientation.*

Career patterns. Career patterns reflect the complex incentives and opportunities for top managers' mobility. We bundle a number of factors under the concept of careers by distinguishing between closed and open labor markets

This content downloaded from 133.1.198.126 on Thu, 22 Oct 2015 04:40:32 UTC
All use subject to JSTOR Terms and Conditions

(Sørensen, 1977), wherein careers are determined largely by the nature and stability of organizational opportunity structures (Rosenfeld, 1992).

In a closed labor market, such as in Japan, vacancies tend to be filled through internal promotion of existing managerial staff within the firm (Dore, 2000). For example, Japanese boards are often very large so that they can integrate a large number of division managers in the internal promotion system. Having risen through the ranks of the internal labor market, with its extensive job rotation system, Japanese managers are generalists with extensive firm knowledge rather than specialists in particular fields. Japanese managers cultivate long-term firm relationships and foster a high degree of loyalty and investment in firm-specific expertise (Wakabayashi, 1980). In terms of remuneration, internal promotion systems use elaborate civil service–like incentives based on seniority. The egalitarian aspect of closed labor markets is reflected in the low salary differentials between managers and employees.

In open labor markets, such as in the United States, the relationship between management and the firm involves higher risks of termination, and vacancies are more likely to be filled through external labor markets (hiring from outside the firm). Managers tend to develop portable skills, reflecting a culture of generalist management and strong financial orientation. Remuneration schemes must therefore incorporate performance-based incentives to recruit outside managers or retain them. A consequence of open labor markets is the high proportion of variable pay in the form of bonuses and stock options, as demonstrated in several studies of management compensation (Baker, Jensen, & Murphy, 1988; Stroh, Brett, Baumann, & Reilly, 1996).

In sum, managers in closed managerial labor markets see their careers taking place in one firm or network of firms, thereby developing a strong attachment to the firm. In contrast, in open managerial labor markets, managers expect to be employed by several firms over the course of their careers and, consequently, tend to be more autonomous.

> *Proposition M2a: In countries with predominantly closed managerial labor markets,* management *tends to have* greater commitment *to the firm and a* functional *orientation.*

> *Proposition M2b: In countries with predominantly open managerial labor markets,* management *tends to have* greater autonomy *in relation to the firm and a* financial *orientation.*

DISCUSSION: NATIONAL INSTITUTIONS AND STAKEHOLDER COALITIONS

In this article we have examined how and why corporate governance differs across countries by identifying significant dimensions of variation in three key stakeholders' relationships to the firm and the institutional domains shaping these relationships. In presenting our model, we have used "forward-looking" propositions to analyze the isolated effects of each institutional domain on each stakeholder. We have defined stakeholder dimensions as a continuum, as opposed to a bipolar construct, where institutional effects are stronger at the extremes of each dimension and weaker when countries occupy intermediate positions; furthermore, we have discussed how the impact of any of the particular institutional domains on a stakeholder group may be reinforced by the existence of other institutions or may be modified in a countervailing fashion (Whitley, 1999). Explaining cross-national diversity of corporate governance requires turning to "backward-looking" propositions that capture the cumulative and interdependent effects of different institutional domains within countries (Scharpf, 1997: 22–27). Such *conjunctural causation* is common in comparative research where diversity emanates from multiple factors (Ragin, 2000).

In applying our model to explain diversity, we must ask how the combination of institutional domains—so-called institutional *configurations*—in a particular country shape corporate governance at the firm level. Institutional differences matter through their capacity to support different modes of interaction among stakeholders at the firm level (dotted lines in Figure 2). Conversely, different modes of interaction between stakeholders will place distinct demands on the national institutional setting (Scharpf, 1997: 47). Our concluding discussion elaborates on these two themes of institutional configurations and stakeholder interactions.

This content downloaded from 133.1.198.126 on Thu, 22 Oct 2015 04:40:32 UTC
All use subject to JSTOR Terms and Conditions

National Institutional Configurations

Institutional configurations have various linkages, complementarities, and tensions (Aoki, 2001; Maurice et al., 1986). The impact of any single institution on stakeholders, such as property rights on capital, is contingent on the influence of other institutional domains (financial systems and interfirm networks) on capital. Consequently, countries with identical institutions in one domain will not necessarily have identical corporate governance to the extent that other institutions will yield countervailing effects.

Institutional *complementarities* refer to situations in which the viability of a certain institution increases in the presence of another institution. For example, liberal property rights, a market-based financial system, and weak intercorporate networks produce effects that reinforce the financial orientation of capital at the firm level, as opposed to strategic orientation. Moreover, complementary institutions may stabilize one another, such as liberal property rights that support a market-based financial system and establish relatively low degrees of multiplexity in interfirm networks. Complementarities may help generate comparative institutional advantages (Hall & Soskice, 2001) but may also lead to inefficient lock-in effects for change (Bebchuck & Roe, 1999).

Weberian sociology also highlights how interdependence may create institutional *tensions* related to conflicting principles of rationality (Lepsius, 1990). For example, while property rights may favor liquidity by protecting minority shareholders, high network multiplexity may reinforce commitment as opposed to liquidity. Such institutional tensions may weaken institutional isomorphism within countries and allow greater heterogeneity within a national case. Such heterogeneity may serve as a beneficial source of requisite variety and facilitate a flexible combination and recombination of organizational practices (Stark, 2001).

For example, Germany is characterized by institutional tensions between multiemployer industrial unions and enterprise-based works councils. Despite persistent conflicts, these mechanisms for labor to control firm decisions sometimes complement each other, as when works councils help implement industry-wide agreements and unions provide training and expertise that protect the independence of works councils (Thelen, 1991). But when institutional conflicts grow, institutional change may occur through the erosion or crisis of existing institutional arrangements (*Academy of Management Journal*, 2002; Scott, 2001).

Stakeholder Interactions

While our model focuses primarily on how institutions influence each stakeholder respectively (Figure 2), institutions also shape corporate governance by structuring stakeholder interactions (dotted lines in Figure 2), triggering different conflicts, and supporting different types of *coalitions* among the three stakeholders. Institutions do not determine the outcomes of such interactions, but they do influence the range of firm-level variation in different countries. We illustrate the diversity of such institutionally structured interactions around three axes: (1) class conflicts, (2) insider-outsider conflicts, and (3) accountability conflicts. These interactions enhance our understanding of cross-national differences in corporate governance.

Class conflict. Class conflict may arise when the interests of capital and management oppose the interests of labor, particularly regarding distributional issues (e.g., wages). Where capital and management pursue financial interests, such as in the United States, conflict is likely to arise around trade-offs between wages and profits, capital reinvestments and paying out dividends, or levels of employment and shareholder returns. Management may often use employee ownership or contingent pay as a means to align employee interests with capital and to minimize governance conflicts (Pierce, Rubenfeld, & Morgan, 1991). In Japan, class conflict is lessened because cross-shareholding and the main banking relationships tend to be complementary with "lifetime employment" (Aoki, 1994). Here the strategic interests and long-term commitment of capital support managerial alignment with employees and facilitate investments in firm-specific skills and stable employment.

Management may also play different roles in mediating class conflict. For instance, whereas the dominance of functional orientations among German managers helps balance financial and strategic interests, U.S. managers are mostly aligned with shareholders' financial interests

This content downloaded from 133.1.198.126 on Thu, 22 Oct 2015 04:40:32 UTC
All use subject to JSTOR Terms and Conditions

because of the prevalence of external careers and contingent pay incentives.

Insider-outsider conflicts. Insider-outsider conflicts may arise when the interests of labor and management (insiders) oppose the interests of capital (outsiders). Insiders may favor internal diversification ("empire building"), block efforts at restructuring, or erect takeover defenses to reduce the threat of external takeovers. Insider-outsider conflicts are often acute in Japan, owing to the intense commitment of capital to specific firms, strong internal participation of core employees, and strong commitment of management. Insiders' interests conflict with minority shareholders' interests in greater liquidity and financial returns, as well as the interests of certain employees—for example, mobile professionals and noncore employees (Okumura, 2000). In the U.S. context of portable employee skills and liquid capital, such conflicts may be less severe. The introduction of more autonomous independent directors over the last few decades has helped insiders to further align management with outside interests and to favor more severe methods of corporate reorganization (Kaplan & Minton, 1994; Walsh & Seward, 1990; Westphal, 1998).

Accountability conflicts. Finally, accountability conflicts concern the common interests of capital and labor vis-à-vis management. Shareholders and employees may form coalitions to remove poorly performing managers or to demand higher corporate transparency. Here, managerial accountability to different stakeholders is not a zero-sum relationship. In Germany, strong labor participation in the supervisory board complements committed blockholders in actively monitoring management (Streeck, 2001). But where the interests of capital and labor diverge too sharply, such coalitions may break down and give management increasing autonomy to pursue its own agenda, and thereby damage accountability.

Implications for Comparative Research

First, our model helps explain the differences in corporate governance practices across national boundaries and why certain practices are more widely spread in some countries than in others. For example, why does the high dispersion of ownership found in the United States remain exceptional? Dispersion is often explained by the development of property rights within common and civil law traditions (La Porta et al., 1999). We suggest a more subtle explanation, wherein multiple institutional domains contributed to a conjunctural cause. Namely, financial systems developed differently across countries, particularly following the "regulatory divide" of the 1930s. The gap between financial systems was magnified by the postwar development of welfare states, where the U.S. pension regime favored market liquidity. Finally, intercorporate networks restricted strategic interfirm cooperation in the context of U.S. antitrust law, thereby encouraging large-scale merger waves that further diluted ownership. In contrast, in countries such as Germany or Italy, concentrated ownership was sustained because of a combination of factors: property rights favoring blockholders, the availability of bank-based finance, and the dense cooperative networks preventing rapid dilution through mergers.

Second, our theoretical model also has implications for studies of internationalization. In most agency theory literature, internationalization is seen as increasing competition over "best practices," thereby leading to a convergence on an Anglo-American model, whereas institutionalists suggest countries will continue to diverge along stable, path-dependent trajectories. We claim that examining internationalization in terms of national models is becoming institutionally "incomplete" because of the multilevel interactions spanning from international to national and subnational policies, most strikingly through the European Union. Furthermore, interactions between stakeholders are increasingly taking a cross-border dimension, exemplified by the pressures of U.S. institutional investors in Continental Europe. Convergence and path dependence, thus, may be false theoretical alternatives in trying to understand simultaneous processes of continuity and change across national boundaries.

Institutional change tends to occur in a slow, piecemeal fashion, rather than as a big bang. Where international pressures may lead to similar changes in one institutional domain, these effects may be mediated by the wider configuration of national institutions. This explains why internationalization has not led to quick convergence on national corporate governance models. The result is often a *hybridization* of

This content downloaded from 133.1.198.126 on Thu, 22 Oct 2015 04:40:32 UTC
All use subject to JSTOR Terms and Conditions

corporate governance models, where practices developed in one national setting are transferred to another, and they undergo adaptation through their recombination with other governance practices (Pieterse, 1994: 165).

For example, "importing" U.S. institutions to postwar Germany and Japan did not result in convergence but, rather, in the modification and adaptation of U.S. practices to develop new hybrid forms of corporate organization, with varying degrees of success (Djelic, 1998; Zeitlin, 2000). Today, Germany and Japan are attempting to introduce "shareholder value" management style to their past institutions of strong labor participation. It remains to be seen whether a stable and distinct corporate governance hybrid will emerge, or whether institutional tensions will cause institutional erosion.

Hybridization also highlights the growing *heterogeneity* of organizational practices within national boundaries (Herrigel, 1995; Locke et al., 1995). While nations presently retain distinct "profiles" of corporate governance, the range of internal variation among firms is growing, particularly between large internationalized corporations and protected domestically oriented or private corporations. Understanding the new multilevel configuration of institutions and their complementary and conflictual effects on corporate governance remains an important research agenda.

REFERENCES

Academy of Management Journal. 2002. 45(1).

Aguilera, R. V. 1998. Directorship interlocks in comparative perspective: The case of Spain. ***European Sociological Review,*** 14: 319–342.

Alchian, A. A., & Demsetz, H. 1973. The property right paradigm. ***Journal of Economic History,*** 33: 16–27.

Aoki, M. 1994. The Japanese firm as a system of attributes. In M. Aoki & R. Dore (Eds.), ***The Japanese firm: Sources of competitive strength***: 11–40. Oxford: Oxford University Press.

Aoki, M. 2000. ***Information, corporate governance, and institutional diversity: Competitiveness in Japan, the USA, and the transnational economies.*** Oxford: Oxford University Press.

Aoki, M. 2001. ***Towards a comparative institutional analysis.*** Cambridge, MA: MIT Press.

Baker, G., Jensen, M. C., & Murphy, K. J. 1988. Compensation and incentives: Practice vs. theory. ***Journal of Finance,*** 43: 593–616.

Bamber, G. J., & Lansbury, R. D. 1998. ***International & comparative employment relations.*** Thousand Oaks, CA: Sage.

Barca, F., & Becht, M. 2001. ***The control of corporate Europe.*** New York: Oxford University Press.

Barnard, C. I. 1938. ***The functions of the executive.*** Cambridge, MA: Harvard University Press.

Bebchuck, L., & Roe, M. 1999. ***A theory of path dependence in corporate governance and ownership.*** Working paper No. 131, Columbia Law School, New York.

Becht, M., & Roël, A. 1999. Blockholding in Europe: An international comparison. ***European Economic Review,*** 43: 10–49.

Bendix, R. 1956. ***Work and authority in industry: Ideologies of management in the course of industrialization.*** New York: Wiley.

Berglöf, E. 1991. ***Corporate control and capital structure: Essays on property rights and financial contracts.*** Stockholm: IIB Institute of International Business.

Berle, A. A., & Means, G. C. 1932. ***The modern corporation and the private property.*** New York: Harcourt Brace.

Best, M. 1990. ***The new competition: Institutions of industrial restructuring.*** Cambridge, MA: Harvard University Press.

Biggart, N. W. 1991. Explaining Asian economic organization: Toward a Weberian institutional perspective. ***Theory and Society,*** 20: 199–232.

Blair, M. M. 1995. ***Ownership and control: Rethinking corporate governance for the twenty-first century.*** Washington, DC: Brookings Institution Press.

Blair, M. M., & Roe, M. J. 1999. ***Employees and corporate governance.*** Washington, DC: Brookings Institution Press.

Boyer, R. 1988. ***In search of labor market flexibility.*** Oxford: Clarendon Press.

Brandsma, J., Kessler, F., & Münch, J. (Eds.). 1996. ***Continuing vocational training: Europe, Japan and the U.S.*** Utrecht: Uigevrij Lemma.

Brown, C., Nakata, Y., Reich, M., & Ulman, L. 1997. ***Work and pay in the United States and Japan.*** New York: Oxford University Press.

Burt, R. 1983. ***Corporate profits and cooptation.*** New York: Academic Press.

Cannella, A. A., & Monroe, M. J. 1997. Contrasting perspectives on strategic leaders: Toward a more realistic view of top managers. ***Journal of Management,*** 23: 213–237.

Chandler, A. D., & Daems, H. 1980. ***Managerial hierarchies: Comparative perspectives on the rise of the modern industrial enterprise.*** Cambridge, MA: Harvard University Press.

Crouch, C., Finegold, D., & Sako, M. 1999. ***Are skills the answer? The political economy of skill creation in advanced industrial economies.*** Oxford: Oxford University Press.

Culpepper, P. D., & Finegold, D. (Eds.). 1999. ***The German skills machine: Sustaining comparative advantage in a global economy.*** New York: Berghahn Books.

This content downloaded from 133.1.198.126 on Thu, 22 Oct 2015 04:40:32 UTC
All use subject to JSTOR Terms and Conditions

Dacin, M. T., Ventresca, M., & Beal, B. D. 1999. The embeddedness of organizations: Dialogue and directions. ***Journal of Management,*** 25: 317–356.

Davis, G. F., & Greve, H. R. 1997. Corporate elite networks and governance changes in the 1980s. ***American Journal of Sociology,*** 103: 1–37.

Davis, G. F., & Mirzruchi, M. S. 1999. The money center cannot hold: Commercial banks in the U.S. system of corporate governance. ***Administrative Science Quarterly,*** 44: 215–239.

Davis, J. H., Schoorman, F. D., & Donaldson, L. 1997. Toward a stewardship theory of management. ***Academy of Management Review,*** 22: 20–47.

Djelic, M.-L. 1998. ***Exporting the American model: The post-war transformation of European Business.*** Oxford: Oxford University Press.

Dobbin, F. 1994. ***Forging industrial policy: The United States, Britain, and France in the railway age.*** New York: Cambridge University Press.

Doktor, R., Tung, R. L., & von Glinow, M. A. 1991. Incorporating international dimensions in management theory building. ***Academy of Management Review,*** 16: 259–261.

Dore, R. 1973. ***British factory—Japanese factory.*** Berkeley: University of California Press.

Dore, R. 2000. ***Stock market capitalism: Welfare capitalism. Japan and Germany versus Anglo-Saxons.*** New York: Oxford University Press.

Egan, M. 1997. Models of business governance: European management styles and corporate cultures. ***West European Politics,*** 20(2): 1–21.

Eisenhardt, K. M. 1989. Agency theory: An assessment and review. ***Academy of Management Review,*** 14: 57–74.

Emirbayer, M., & Goodwin, J. 1994. Network analysis, culture, and the problem of agency. ***American Journal of Sociology,*** 6: 1411–1454.

Fama, E. 1980. Agency problems and the theory of the firm. ***Journal of Political Economy,*** 88: 288–307.

Fama, E., & Jensen, M. 1983. Separation of ownership and control. ***Journal of Law and Economics,*** 26: 301–325.

Finegold, D., & Soskice, D. 1988. The failure of training in Britain: Analysis and prescription. ***Oxford Review of Economic Policy,*** 4(3): 21–53.

Finkelstein, S., & Hambrick, D. C. 1996. ***Strategic leadership: Top executives and their effects on organizations.*** St. Paul: West Educational Publishing.

Fligstein, N. 1990. ***The transformation of corporate control.*** Cambridge, MA: Harvard University Press.

Fligstein, N., & Freeland, R. 1995. Theoretical and comparative perspectives on corporate organization. ***Annual Review of Sociology,*** 21: 21–43.

Freeman, R. E. 1984. ***Strategic management: A stakeholder approach.*** Boston: Pitman.

Freeman, R. (Ed.). 1994. ***Working under different rules.*** New York: Sage Foundation.

Fukao, M. 1995. ***Financial integration, corporate governance, and the performance of multinational companies.*** Washington, DC: Brookings Institution Press.

Gedajlovic, E. R., & Shapiro, D. M. 1998. Management and ownership effects: Evidence from five countries. ***Strategic Management Journal,*** 19: 533–553.

Gerlach, M. 1992. ***Alliance capitalism: The social organization of Japanese business.*** Berkeley: University of California Press.

Ghoshal, S., & Moran, P. 1996. Bad for practice: A critique of the transaction cost theory. ***Academy of Management Review,*** 21: 13–47.

Goll, I., & Zeitz, G. 1991. Conceptualizing and measuring corporate ideology. ***Organization Studies,*** 12: 191–207.

Granovetter, M. 1985. Economic action and social structure: The problem of embeddedness. ***American Journal of Sociology,*** 91: 481–510.

Guillén, M. F. 1994. ***Models of management: Work, authority and organization in comparative perspective.*** Chicago: University of Chicago Press.

Guillén, M. F. 2000. Corporate governance and globalization: Is there convergence across countries? ***Advances in International Comparative Management,*** 13: 175–204.

Hall, P. A., & Soskice, D. 2001. ***Varieties of capitalism: The institutional foundations of comparative advantage.*** Oxford: Oxford University Press.

Hamilton, G. G., & Biggart, N. W. 1988. Market, culture, and authority: A comparative analysis of management and organization in the Far East. ***American Journal of Sociology,*** 94(Supplement): S52–S94.

Herrigel, G. 1995. ***Industrial constructions: The sources of German industrial power.*** New York: Cambridge University Press.

Hirschman, A. O. 1970. ***Exit, voice, and loyalty: Responses to decline in firms, organizations, and states.*** Cambridge, MA: Harvard University Press.

Hofstede, G. 1997. ***Cultures and organizations: Software of the mind.*** London: McGraw-Hill.

Hondrich, K. O. 1970. ***Mitbestimmung in Europa.*** Bonn: Europa Union Verlag.

Huselid, M. A. 1995. The impact of human resource management practices on turnover, productivity, and corporate financial performance. ***Academy of Management Journal,*** 38: 635–672.

Jackell, R. 1990. ***Moral maze: The world of corporate managers.*** New York: Oxford University Press.

Jackson, G. 2001. The origins of nonliberal corporate governance in Germany and Japan. In W. Streeck & K. Yamamura (Eds.), ***The origins of nonliberal capitalism: Germany and Japan compared:*** 121–170. Ithaca, NY: Cornell University Press.

Jackson, G., & Vitols, S. 2001. Between financial commitment, market liquidity and corporate governance: Occupational pensions in Britain, Germany, Japan and the USA. In B. Ebbinghaus & P. Manow (Eds.), ***Comparing welfare capitalism: Social policy and political economy in Europe, Japan and the USA:*** 171–189. London: Routledge.

This content downloaded from 133.1.198.126 on Thu, 22 Oct 2015 04:40:32 UTC
All use subject to JSTOR Terms and Conditions

Jensen, M., & Meckling, W. 1976. The theory of the firm: Managerial behavior, agency costs, and ownership structure. ***Journal of Financial Economics,*** 3: 305–360.

Kaplan, S. N., & Minton, B. A. 1994. Appointments of outsiders to Japanese boards: Determinants and implications for managers. ***Journal of Financial Economics,*** 36: 225–258.

Khan, H. A. 2001. ***Corporate governance of family businesses in Asia.*** Tokyo: East Asian Development Bank Institute.

Knudsen, H. 1995. ***Employee participation in Europe.*** London: Sage.

Lane, C. 1989. ***Management and labor in Europe.*** Hants, UK: Edward Elgar.

La Porta, R., Lopez-de-Silanes, F., & Shleifer, A. 1999. Corporate ownership around the world. ***Journal of Finance,*** 54: 471–517.

La Porta, R., Lopez-de-Silanes, F., Shleifer, A., & Vishny, R. W. 1998. Law and finance. ***Journal of Political Economy,*** 106: 1113–1155.

Lawrence, P. 1980. ***Managers and management in Germany.*** London: Croome Helm.

Lazonick, W., & O'Sullivan, M. 1996. Organization, finance and international competition. ***Industrial and Corporate Change,*** 5: 1–49.

Lepsius, M. R. 1990. ***Interessen, ideen und institutionen.*** Wiesbaden: Westdeutsche Verlag.

Lincoln, J., Gerlach, M., & Takahashi, P. 1992. Keiretsu networks in the Japanese economy: A dyad analysis of intercorporate ties. ***American Sociological Review,*** 57: 561–585.

Locke, R., Kochan, T., & Piore, M. 1995. ***Employment relations in a changing world economy.*** Cambridge, MA: MIT Press.

Lubatkin, M., Lane, P. J., Collin, S., & Very, P. 2001. ***A nationally-bounded theory of opportunism in corporate governance.*** Working paper, University of Connecticut, Storrs, CT.

Marsden, D. 1999. ***A theory of employment systems: Microfoundations of societal diversity.*** Oxford: Oxford University Press.

Martin, R. 1999. ***Transforming management in Central and Eastern Europe.*** Oxford: Oxford University Press.

Maurice, M., Sellier, F., & Silvestre, J.-J. 1986. ***The social foundations of industrial power: A comparison of France and Germany.*** Cambridge, MA: MIT Press.

Mizruchi, M., & Stearns, L. 1988. A longitudinal study of the formation of interlocking directorates. ***Administrative Science Quarterly,*** 33: 194–210.

Nagels, K., & Sorge, A. 1977. ***Industrielle demokratie in Europa: Mitbestimmung und kontrolle in der Europäischen aktiengesellschaft.*** Frankfurt: Campus Verlag.

North, D. 1990. ***Institutions, institutional change, and economic performance.*** Cambridge: Cambridge University Press.

Okumura, H. 2000. ***Corporate capitalism in Japan.*** New York: St. Martin's Press.

Orrú, M., Biggart, N. W., & Hamilton, G. G. 1997. ***The economic organization of East Asian capitalism.*** Thousand Oaks, CA: Sage.

O'Sullivan, M. 2000. ***Contests for corporate control. Corporate governance and economic performance in the United States and Germany.*** New York: Oxford University Press.

Parkinson, J., & Kelly, G. 2001. The conceptual foundations of the firm. In J. Parkinson, A. Gamble, & G. Kelly (Eds.) ***The political economy of the company:*** 113–140. Oxford: Hart Publishing.

Pedersen, T., & Thomsen, S. 1997. European patterns of corporate ownership: A twelve-country study. ***Journal of International Business Studies,*** 28: 759–778.

Pierce, J. L., Rubenfeld, S. A., & Morgan, S. 1991. Employee ownership: A conceptual model of process and effects. ***Academy of Management Review,*** 16: 121–144.

Pieterse, J. N. 1994. Globalization as hybridization. ***International Sociology,*** 9: 161–184.

Powell, W. W., & DiMaggio, P. J. (Eds.). 1991. ***The new institutionalism in organizational analysis.*** Chicago: University of Chicago Press.

Prowse, S. 1995. Corporate governance in an international perspective: A survey of corporate control mechanisms among large firms in the U.S., U.K. and Germany. ***Financial Markets, Institutions, and Instruments,*** 4: 1–61.

Ragin, C. C. 2000. ***Fuzzy-set social science.*** Chicago: University of Chicago Press.

Rhodes, M., & van Apeldoorn, B. 1998. Capital unbound? The transformation of European corporate governance. ***Journal of European Public Policy,*** 5: 406–427.

Roe, M. J. 1994. ***Strong managers, weak owners: The political roots of American corporate finance.*** Princeton, NJ: Princeton University Press.

Roe, M. J. 2000. Political preconditions to separating ownership from control. ***Stanford Law Review,*** 53: 539–606.

Rogers, J., & Streeck, W. 1994. Workplace representation overseas: The works council story. In R. Freeman (Ed.), ***Working under different rules:*** 97–156. New York: Sage.

Rosenfeld, R. A. 1992. Job mobility and career processes. ***Annual Review of Sociology,*** 18: 39–61.

Roy, W. G. 1997. ***Socializing capital: The rise of the large industrial corporation in America.*** Princeton, NJ: Princeton University Press.

Rubach, M. J., & Sebora, T. C. 1998. Comparative corporate governance: Competitive implications of an emerging converenge. ***Journal of World Business,*** 33: 167–184.

Scharpf, F. W. 1997. ***Games real actors play: Actor-centered institutionalism in policy research.*** Boulder, CO: Westview.

Scott, W. R. 2001. ***Institutions and organizations.*** Thousand Oaks, CA: Sage.

Shleifer, A., & Vishny, R. W. 1997. A survey of corporate governance. ***Journal of Finance,*** 52: 737–783.

Simon, H. 1976. ***Administrative behavior.*** New York: Free Press.

This content downloaded from 133.1.198.126 on Thu, 22 Oct 2015 04:40:32 UTC
All use subject to JSTOR Terms and Conditions

Sørensen, A. B. 1977. The structure of inequality and the process of attainment. ***American Sociological Review,*** 40: 456–471.

Sorge, A. 1990. A European overview of work and vocational training. In M. Warner, W. Wobbe, & P. Broedner (Eds.), ***New technology and manufacturing management:*** 147–157. Chichester, UK: Wiley.

Stark, D. 2001. Ambiguous assets for uncertain environments: Heterarchy in postsocialist firms. In P. DiMaggio, W. Powell, D. Stark, & E. Westney (Eds.), ***The future of the firm: The social organization of business:*** 69–104. Princeton, NJ: Princeton University Press.

Steinherr, A., & Huveneers, C. 1994. On the performance of differently regulated financial institutions: Some empirical evidence. ***Journal of Banking and Finance,*** 18: 271–306.

Streeck, W. 1993. Klasse, Beruf, Unternehmen, Distrikt: Organisationsgrundlagen industrieller Beziehung im Europaischen Binnenmarkt. In B. Strumpel & M. Dierkes (Eds.), ***Innovation und Beharrung in der Arbeitspolitik:*** 39–68. Stuttgart: Schaffer-Poeschel Verlag.

Streeck, W. 2001. ***The transformation of corporate organization in Europe: An overview.*** Working paper No. 01/8. Köln: Max Planck Institute für Gesellschaftsforschung.

Streeck, W. 2002. Introduction: Explorations into the origins of nonliberal capitalisms in Germany and Japan. In W. Streeck & K. Yamamura (Eds.), ***The origins of nonliberal capitalism: Germany and Japan compared:*** 1–38. Ithaca, NY: Cornell University Press.

Stroh, L. K., Brett, J. M., Baumann, J. P., & Reilly, A. H. 1996. Agency theory and variable pay compensation strategies. ***Academy of Management Journal,*** 39: 751–767.

Thelen, K. 1991. ***Union of parts.*** Ithaca, NY: Cornell University Press.

Thelen, K. 1999. Historical institutionalism in comparative politics. ***American Review of Political Science,*** 2: 369–404.

Thelen, K., & Kume, I. 2002. The rise of non-market training regimes: Germany and Japan compared. In W. Streeck & K. Yamamura (Eds.), ***The origins of nonliberal capitalism: Germany and Japan compared:*** 200–228. Ithaca, NY: Cornell University Press.

Thomas, L. G., & Waring, G. 1999. Competing capitalisms: Capital investment in American, German, and Japanese firms. ***Strategic Management Journal,*** 20: 729–748.

Thomsen, S., & Pedersen, T. 2000. Ownership structure and economic performance in the largest European companies. ***Strategic Management Journal,*** 21: 689–705.

Tilly, C., & Tilly, C. 1998. ***Work under capitalism.*** Boulder, CO: Westview.

Wakabayashi, M. 1980. ***Management career progress in a Japanese organization.*** Ann Arbor: University of Michigan Press.

Walsh, J. P., & Seward, J. K. 1990. On the efficiency of internal and external corporate control mechanisms. ***Academy of Management Review,*** 15: 421–458.

Weber, M. 1978. ***Economy and society.*** Berkeley: University of California Press.

Weimer, J., & Pape, J. C. 1999. A taxonomy of systems of corporate governance. ***Corporate Governance,*** 7: 152–166.

Westphal, J. D. 1998. Board games: How CEOs adapt to increases in structural board independence from management. ***Administrative Science Quarterly,*** 43: 511–537.

Whitley, R. (Ed.). 1992. ***European business systems. Firms and markets in their national contexts.*** London: Sage.

Whitley, R. 1999. ***Divergent capitalisms: The social structuring and change of business systems.*** Oxford: Oxford University Press.

Whittington, R., & Mayer, M. 2000. ***The European corporation: Strategy, structure, and social science.*** New York: Oxford University Press.

Williamson, O. E., Watcher, M. L., & Harris, J. E. 1975. Understanding the employment relation: The analysis of idiosyncratic exchange. ***Bell Journal of Economics,*** 6: 250–278.

Windolf, P. 2002. ***Corporate networks in Europe and the United States.*** New York: Oxford University Press.

Windolf, P., & Beyer, J. 1996. Cooperative capitalism: Corporate networks in Germany and Britain. ***British Journal of Sociology,*** 47: 205–231.

Wright, M., Filatotchev, I., & Buck, T. 1997. Corporate governance in Central and Eastern Europe. In K. Thompson & M. Wright (Eds.), ***Corporate governance: Economic, management and financial issues:*** 212–232. Oxford: Oxford University Press.

Zeitlin, J. 2000. Introduction. In J. Zeitlin & G. Herrigel (Eds.), ***Americanization and its limits: Reworking US technology and management in post-war Europe and Japan:*** 1–52. Oxford: Oxford University Press.

Zysman, J. 1983. ***Governments, markets, and growth: Financial systems and the politics of industrial change.*** Ithaca, NY: Cornell University Press.

Ruth V. Aguilera is an assistant professor of management at the College of Commerce and Business Administration and the Institute of Labor and Industrial Relations, the University of Illinois at Urbana-Champaign. She received her Ph.D. in sociology from Harvard University. Her current research interests include economic sociology, institutional theory, and comparative corporate governance.

Gregory Jackson is fellow at the Research Institute of Economy, Trade and Industry in Tokyo, Japan. He received his Ph.D. in sociology from Columbia University and was a fellow at the Max-Planck-Institute for the Study of Societies in Cologne, Germany. His interests include corporate governance, economic sociology, and comparative and historical methods.

This content downloaded from 133.1.198.126 on Thu, 22 Oct 2015 04:40:32 UTC
All use subject to JSTOR Terms and Conditions