CORPORATE GOVERNANCE AND GLOBALIZATION

IS THERE CONVERGENCE ACROSS COUNTRIES?

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ABSTRACT

Proponents of the globalization thesis argue that cross-national patterns of corporate governance are converging or will converge on either the Anglo-Saxon, shareholder-centered model or some hybrid between the shareholder and stakeholder models. Other scholars, however, observe that corporate governance models cannot be seen in isolation of the rest of the institutional underpinnings of the economy and predict no convergence in corporate governance across countries. They make three interrelated arguments. First, corporate governance is tightly coupled with path-dependent legal traditions that are unlikely to change in the near future. Second, corporate governance models interact in complex ways with other institutional features directly related to the ways in which firms compete in the global economy. Third, the variety of economic, social, and political actors involved in corporate governance across countries makes it hard to envision convergence as the result of global pressures because they may attempt to shape and oppose changes adverse to their interests. Longitudinal evidence on various corporate governance dimensions drawn

Advances in International Comparative Management, Volume 13, pages 175-204.
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ISBN: 0-7623-0589-4

from both advanced and newly industrialized countries shows little convergence over the last 20 years.

INTRODUCTION

A corporate governance system is the "set of incentives, safeguards, and dispute-resolution processes used to order the activities of various corporate stakeholders" such as owners, managers, workers, creditors, suppliers, and customers (Kester, 1996, p. 109). Corporate governance provides a framework for the division of labor and of financial results in the firm. Corporate governance plays a key role in any economy. A well-functioning corporate governance system can contribute to economic efficiency, and perhaps even social equity. A poorly conceived system can wreak havoc on the economy by misallocating resources or failing to check opportunistic behaviors. Moreover, different corporate governance systems are associated with peculiar managerial decision-making criteria and temporal orientations (Bühner et al., 1998; Kester, 1996; Lazonick & O'Sullivan, 1996).

Most conceptual analyses of corporate governance to date make comparisons between the shareholder-centered models of the United States or the U.K., and the stakeholder-centered models of Japan or Germany (Bühner et al., 1998; Lazonick & O'Sullivan, 1996; Macey & Miller, 1995; Roe, 1993). Other researchers also propose the French and Scandinavian systems as separate models due to their different legal origins (La Porta et al., 1998). Corporate governance patterns continue to differ markedly across countries in spite of decades of economic globalization and 20 years of intense financial globalization. The literature has documented great cross-national differences in terms of such essential aspects of corporate governance as the importance of large stockholders, the legal protection of shareholders, the extent to which relevant laws are enforced, the treatment of stakeholders such as labor, suppliers or the community, the reliance on debt finance, the structure of the board of directors, the way in which executives are compensated, and the frequency and treatment of mergers and takeovers, especially hostile ones. Concentrated, not dispersed, ownership is still the rule rather than the exception throughout the world, and so is family control of even the largest corporations or business groups in most countries (Becht & Röell, 1999; La Porta et al., 1998, 1999; Loredo & Suárez, 1998; Shleifer & Vishny, 1997; Thomsen & Pedersen, 1996).[1]

This paper focuses on the question of whether globalization is reducing the diversity in corporate governance practices across countries or not. The effects of globalization on corporate governance have important social, economic, and political as well as managerial implications. Intuitively, globalization is a process related to increasing cross-border flows of goods, services, money, people, and information. Globalization appears to be associated with a disjunction of space and time (Giddens, 1990, p. 64, 1991, p. 21), a shrinking of the world (Harvey,

1989; Mittelman, 1996). The global economy—driven by increasing technological scale, alliances between firms, and information flows (Kobrin, 1997, pp. 147-148)—is one "with the capacity to work as a unit in real time on a planetary scale" (Castells, 1996, p. 92). It is also one in which national economies become more interdependent in terms of trade, finance, and macroeconomic policy (Gilpin, 1987, p. 389).

While only a few skeptics doubt the existence of a process of globalization, there is little agreement as to what the consequences are (for reviews, see Guillén, 2001b; Waters, 1995). Some management scholars (Prahalad, 1997) and sociologists (Meyer et al., 1997) argue that convergence in organizational patterns is taking place as a result of globalization. Other researchers see globalization as promoting diversity in the world as opposed to homogeneity (Guillén, 2001a, 2001b; Macey & Miller, 1995). Among others, the argument is made that companies in different countries will tend to adopt corporate governance practices consistent with free capital markets and geared toward maximizing shareholder value. The increase in foreign direct and portfolio investment—with the concomitant rise of powerful multinational corporations and institutional investors—are commonly cited as pressures tending toward convergence. Companies and countries that do not bend to this trend are predicted to decline in terms of global competitiveness (Bishop, 1994; Charkham, 1995; Ibbotson & Brinson, 1993; Loredo & Suárez, 1998; OECD, 1998a; Useem, 1996). As recently as 1999, the World Bank and the OECD have joined forces to "improve global corporate governance practices" with the creation of the Global Corporate Governance Forum, an initiative that may increase the pressure on developing countries to reform their corporate governance systems, although it has thus far only recommended increasing transparency rather than uprooting long-standing practices (Sargent, 1999, p. 3; O'Sullivan, 1999).

Examining the impact of globalization on organizational patterns such as corporate governance systems is a delicate task because scholars do not agree as to when globalization started and to what extent it has made inroads (Guillén, 2001b). While some scholars date the beginning of globalization with the first circumnavigation of the Earth or the rise of the European-centered world economy in the early sixteenth century, others would rather wait until the turn of the twentieth century, World War II, the oil crises of the 1970s, the rise of Thatcher and Reagan, or even the collapse of the Soviet Union in 1989. This paper focuses on trends in corporate governance since the mid-1970s. The proponents of the convergence thesis and its detractors coincide in observing that little convergence, if any, took place prior to 1973. Hence, they both focus on the rise in foreign trade, foreign direct investment, and cross-border portfolio investment since the late 1970s as factors potentially shaping corporate governance practices.

Surprisingly, the extant literature has not produced longitudinal evidence documenting changes in corporate governance practices for a number of countries large enough to tell whether there is convergence in the world or not. This paper

is the first to systematically compare the arguments for and against convergence in corporate governance, and to provide longitudinal empirical evidence on patterns of corporate governance for both rich and emerging countries. The paper focuses on aggregate trends at the country level of analysis since the mid-1970s or the early 1980s (depending on the indicator) rather than on concrete events affecting specific companies. I start by presenting the arguments for and against convergence. Then I present longitudinal quantitative evidence, including the influence of foreign investment from different home countries, the presence of institutional investors, the distribution of listed corporate equity by type of shareholder, the debt-equity ratios of nonfinancial firms, the adoption of long-term incentives in CEO remuneration, and the occurrence of hostile takeovers. The evidence presented shows that little convergence has taken place since 1980 although some countries have adopted certain isolated features of the shareholder-centered model. In the conclusion I propose to intensify our research efforts on cross-national patterns of corporate governance from a comparative approach that takes national diversity and its consequences seriously into account.

ARGUMENTS FOR CONVERGENCE

Proponents of the "globalization thesis" about convergence in corporate governance systems see the rise of foreign direct and portfolio investment as a force tending toward homogeneity. However, they do not agree on the outcome of such a process of convergence. Some scholars and observers argue that globalization will cause corporate governance practices to converge on the American shareholder-centered model whereas others sustain that there will be convergence half way between the shareholder and stakeholder models. A third group of convergence proponents argues that it is hard to predict the final outcome of convergence. Let us analyze each argument in turn.

Convergence on the Shareholder-Centered Model

Early students of corporate governance argued that secure shareholder rights and the sharp separation of (dispersed) ownership from (managerial) control were inevitably more "efficient" and "modern" than alternative models such as those underpinning family firms, conglomerates, bank-led groups, or worker cooperatives, and would accordingly become widespread (Berle & Means, 1932; Kerr et al., 1964). These models developed historically in the United Kingdom and the United States, the two dominant world powers of the nineteenth and twentieth centuries, and spread to other countries that adopted English common law, largely the former colonies of the British Empire (La Porta et al., 1998). Given the dominance of American business from the end of World War II to at least the 1970s, one would have expected the American corporate governance model—dispersed

ownership, strong legal protection of shareholders and indifference to other stakeholders, little reliance on bank finance, relative freedom to merge or acquire—to have been adopted as the best practice throughout the world.

The globalization of financial investment and money-managing starting in the early 1980s has spurred another round of arguments predicting a convergence on the American model because it is based on market principles. Most financial and money managers would prefer companies throughout the world to observe shareholder rights, maximize shareholder value, and be transparent in their reporting of corporate activities and results (Useem, 1996). The rise of globally diversified mutual funds seems to create "pressures for the standardization of information on companies" (Ibbotson & Brinson, 1993, p. 321; see also Shleifer & Vishny, 1997, p. 757).[2]

Convergence on a Hybrid Model

A second group of convergence proponents seized on the rise of Germany and Japan as formidable manufacturing powers from the 1960s to the 1980s to argue that there is a trend toward a hybrid model combining features from both the shareholder and the stakeholder models (Fleming, 1998; OECD, 1998a). The OECD's report on corporate governance—written by six prominent managers or directors from the United States, France, Britain, Germany, and Japan—states that "as regulatory barriers between national economies fall and global competition for capital increases, investment capital will follow the path to those corporations that have adopted efficient governance standards.... Philosophical differences about the corporation's mission continue, although views appear to be converging" (1998a, p. 83). Unlike the first group of convergence proponents, however, the experts assembled by the OECD point out that convergence is not toward the U.S. approach but toward a middle ground between the shareholder- and stakeholder-centered models.

The argument about convergence on a hybrid model is based on the premise that no single model is optimal along each and every dimension. "It is not productive to argue whether any system of governance is inherently superior to others...systems are 'path specific'" (OECD, 1995, p. 29). Therefore, this second group of convergence proponents argues that market forces will eventually encourage firms and countries to select features from existing models as they strive to remain competitive.

Convergence on an Undefined Model

The third group of proponents of convergence argues that it has become exceedingly difficult to predict whether the U.S. model or a hybrid will ultimately predominate. Thus, Matthew Bishop, writing in 1994 for *The Economist* magazine, admits that "predicting trends in corporate governance is a tricky business.

Five years ago the long-termism of the Japanese and Germans seemed the best course; and the turmoil caused by hostile bids in America and Britain seemed the opposite. Now things look different." After a detailed analysis of cross-national differences, Jonathan Charkham (1995, p. 363) leaves it up to the reader to decide which is the "best" model, assuming that the best or most efficient will eventually prevail.

ARGUMENTS AGAINST CONVERGENCE

There are at least three arguments in the extant literature that provide a rationale against the prediction that corporate governance practices are converging or will converge across countries. First, corporate governance systems are tightly coupled with path-dependent regulatory traditions in the areas of banking, labor, tax, and competition law that are unlikely to be modified in the near future. Second, corporate governance systems do not exist in isolation of other institutional features directly related to the ways in which firms formulate their strategy to compete in the global economy. Third, global pressures on corporate governance practices are mediated by domestic politics in ways that make convergence across countries rather unlikely.

The Legal Case Against Convergence

The legal argument against convergence in corporate governance notes that corporate law is intimately related not only to social custom but also to other legal areas, such as banking, labor, tax, and competition law. Such complex systems of laws and regulations evolve in a path-dependent way and are resistant to change (Bebchuk & Roe, 1999; Bühner et al., 1998). As Columbia law professor Mark Roe (1993) explains in detail, the American model of corporate governance emerged from a specific legal and law-making tradition prone to limiting the activities of banks, privileging managerial over worker rights, taxing the dividends obtained from cross-holdings of shares, and specifying tight constraints on collaborative arrangements between firms in the same industry. In Germany and Japan, by contrast, a different set of banking, labor, tax, and competition laws and regulations supports models of corporate governance that facilitate routine interactions between owners and managers, and extensive collaborative ties between financial institutions and firms or between firms themselves. In particular, executive compensation systems are unlikely to converge across countries because the tax treatment of perquisites, pension funds, and long-term incentives is so different. Similarly, the patterns of stockholding across different institutional actors such as financial intermediaries, nonfinancial firms, and households are also unlikely to converge because of competition and tax regulations specifying who can own what.

Economists La Porta, Lopez-de-Silanes, Shleifer, and Vishny argue in a series of influential papers (La Porta et al., 1998, 1999) that diversity in corporate governance around the world results from attempts by stockholders to surmount poor legal investor protection (see also Bühner et al., 1998, p. 147, prop. 1). Thus, ownership concentration is a frequent way in which investors try to gain power in order to protect their interests. Using detailed data from nearly 50 countries, La Porta and colleagues (1998) identify four legal traditions—French (which includes the French, Spanish, and Portuguese spheres of colonial influence), German (Central Europe and Japan), Scandinavian, and Common Law (the former British colonies)—which help explain patterns of variation. Thus, legal traditions with relatively weak investor protection (German, Scandinavian, French) have more concentrated ownership than the common-law countries. In another paper, La Porta and colleagues (1999) establish that in 27 wealthy countries, both the largest 20 firms in terms of market capitalization and the 10 firms with capitalization just above $500 million do not tend to have dispersed ownership, but are under the control of families, the state, or financial institutions, in that order of importance (see also Guillén, 2001a, chap. 3; Orrù, Biggart, & Hamilton, 1997).

Like La Porta and colleagues, Roe (1993, p. 1989) concludes that "the American governance structure is not inevitable, that alternatives are plausible, and that a flatter authority structure does not disable foreign firms." Rather than using agency costs or contract theory or judicial doctrine to explain this or that feature as mitigating or reflecting managerial deviation from the maximization of shareholders' wealth," he continues, "we must consider the role of politics, history, and culture" (1993, p. 1997). To those variables now we turn.

The Institutional Case Against Convergence

An institutional approach indicates that it is futile to attempt identifying the best practice or model in the abstract (Guillén, 1994; Whitley, 1992, 1999). Rather, countries and their firms are socially and institutionally equipped to follow different competitive strategies in the global economy. One such institutional equipment is the pattern of corporate governance prevalent in the country, which facilitates specific competitive strategies and temporal orientations (Bebchuk & Roe, 1999; Bühner et al., 1998; Kester, 1996; Kim & Hoskisson, 1996; Lazonick & O'Sullivan, 1996).

Thus, German, French, Japanese, and American firms are justly famous for their competitive edge, albeit following different strategies for different industries and market segments that are closely intertwined with their corporate governance systems. Germany's educational and industrial institutions—dual-apprenticeship system, management-union cooperation, dual-board corporate governance system, and tradition of hands-on engineering or *Technik*—enable companies to excel in high-quality, engineering-intensive industries such as advanced machine tools, luxury automobiles, and specialty chemicals. The participation of labor on the

supervisory boards of German corporations is a key mechanism compelling firms to look for smart ways of employing the skills of their expensive though extremely productive and sophisticated workers (Hollingsworth et al., 1994; Murmann, 1998; Streeck, 1991, 1995; Soskice, 1998). The French model of elite engineering education has enabled firms to excel at large-scale technical undertakings such as high-speed trains, satellite-launching rockets, or nuclear power. French boards of directors tend to span the private and state-owned sectors of the economy, which play a key role in those industries (Storper & Salais, 1997, pp. 131-148; Ziegler, 1995, 1997). The Japanese institutional ability to borrow, improve, and integrate ideas and technologies from various sources allows its companies to master most categories of assembled goods such as household appliances, consumer electronics, and automobiles (Cusumano, 1985; Dore, 1973; Westney, 1987). In order to do so Japanese corporations rely on the stability and close ties afforded to them by the *keiretsu* structure of corporate governance (Gerlach, 1992; Kim & Hoskisson, 1996). Last, the American cultural emphasis on individualism, entrepreneurship, and customer satisfaction enables her firms to become world-class competitors in goods or services that are intensive in people skills, knowledge, or venture capital, such as software, financial services, or biotechnology (Porter, 1990; Storper & Salais, 1997, pp. 174-188). Undoubtedly, the capital market driven, shareholder-centered model of corporate governance fits this situation best.

Sociologists and political scientists have long noted the strong association between the stakeholder-centered model of corporate governance and social-democratic policymaking in Central European countries with extensive welfare states and strong labor market institutions (Hollingsworth et al., 1991; Streeck, 1991, 1995; Soskice, 1998). It is important to underline that most of the empirical evidence available demonstrates that this alternative is viable, even in the face of globalization. Noting the association between openness to the global economy and the size of the state, and using cross-national data for the advanced industrial democracies since 1960, Geoffrey Garrett (1998, pp. 1-2, 11, 107, 132-133, 157-158) empirically demonstrates the viability of social-democratic policymaking even with increasing exposure to globalization in the forms of cross-border trade and capital mobility. He also proves that it is possible to win elections with redistributive and interventionist policies, and that better economic performance in terms of GDP growth and unemployment obtains, though with higher inflation than in the laissez-faire countries (United States, Britain). Garrett (1998, p. 157) concludes that "big government is compatible with strong macroeconomic performance," and that markets do not dominate politics.

Political scientist Evelyne Huber and sociologist John Stephens (1999) advance an interesting argument about the linkage between the stakeholder-centered view of the firm and macroeconomic policies and performance. They begin by noting that countries with generous welfare states have generally done at least as well as countries with less generous welfare states in terms of unemployment and economic growth. They maintain that a configuration of mutually consistent and reinforcing generous welfare state programs and coordinated production regimes (high union density, low wage dispersion, active worker participation in the governance of the firm) allow countries to compete in world markets on the basis of high wages and high-quality products—the so-called "high road" to international competitiveness (see also Hollingsworth et al., 1991; Soskice, 1998; Streeck, 1991, 1995).

One finds a similar diversity of patterns among newly industrialized countries in Asia, Latin America, and Southern Europe. The distribution of organizational forms and corporate governance systems across these countries has grown more diverse over time, not less. In some countries cooperatives and small family firms thrive (Spain, Taiwan), while in others it is large business groups that predominate (Korea, Indonesia, Mexico, Turkey). Institutional scholars have documented with case studies and systematic quantitative evidence that organizations and patterns of corporate control diverge as countries develop and become more embedded in the global economy (Orrù, Biggart, & Hamilton, 1996; Biggart & Guillén, 1999; Guillén, 2001a; Aguilera, 1998). Moreover, such diversity is related in complex ways to each country's role in the global economy. Korea has made a dent in international competition in a way that is intimately related to the indigenous patterns of social organization and corporate governance underpinning the rise of large, capital-intensive, and diversified conglomerates known as *chaebol*. Thus, the Koreans export mass-produced automobiles, consumer electronics, chemicals, and steel. The Taiwanese *guanxiquiye* networks of small family firms, by contrast, are thriving in the global economy on the basis of their adaptability and flexibility. Taiwan is known for its exports of machine tools, auto parts, and electronic components. And the Spanish worker-owned cooperatives and family firms have succeeded by leveraging relationships with foreign multinationals and managing not to fall prey to the lending practices of the country's all powerful banks. They are known internationally for their components and branded consumer products (Orrù, Biggart, & Hamilton, 1996; Guillén, 2001a).

The institutional approach to the study of trends in corporate governance is useful to understand why the empirical literature has thus far failed to establish a clear link between corporate governance and economic performance using conventional multiple regression techniques. Quantitative studies have reported that differences in corporate governance across advanced industrial economies are not significantly associated with differences in financial or sales performance at the company level, after controlling for industry and firm size (Thomsen & Pedersen, 1996). Other researchers have found no evidence that differences in corporate governance systems affect GDP growth over the long run (La Porta et al., 1998). One may interpret these results as proof that corporate governance does not matter for economic performance. A second possibility is, however, that the different corporate governance systems enable firms and countries to excel at different kinds of activities in the global economy. The institutional argument against convergence would support such an interpretation.

The Political Case Against Convergence

The third counterargument about corporate governance and globalization observes that economic and financial globalization are shaped and contested by political interests. The literature on the diffusion of corporate governance and organizational forms in general is replete with detailed studies of how domestic political conditions affect outcomes (Djelic, 1998; Fligstein, 1990; Orrù, Biggart, & Hamilton, 1996). Domestic politics mediate in the relationship between external trends or shocks and outcomes. There is no a priori theoretical reason why the impact of globalization on corporate governance should be any different, as scholars (Macey & Miller, 1995; O'Sullivan, 1999) and policymakers (Binns, 1998) have recognized.

Examples from the vast literature on the historical transformation of corporations and corporate governance suffice to make the point. Djelic (1998) provides compelling historical evidence that, under pressure from Marshall planners and advisors, German and French politicians, industrialists, and labor leaders resisted the direct implementation of American corporate governance and industrial organization blueprints during the 1950s. Domestic actors were able to shape and mold American models to their own goals and priorities. Outcomes also depended on the mutual accommodations found by governments, employers, and unions. Guillén (1994) analyzes how domestic coercive and normative factors affected the transfer of models of management throughout the twentieth century, with no one country adopting a given model for the same reasons or with similar outcomes. Aguilera (1998) notes that even most similar cases such as Spain and Italy have diverged considerably over time because of regulatory and policy choices made a long time ago, whose effects endure because actors become entrenched in them.

Even in the United States, trends and changes in corporate governance have typically taken place in the midst of fierce political battles. Fligstein (1990) documents how the transitions from the manufacturing to the marketing and to the financial conceptions of corporate control over the twentieth century were punctuated by political and legislative struggles. A raging debate erupted in the 1990s between, on the one hand, managers, economists, and legal experts celebrating the efficiency of the separation of ownership from control (Easterbrook & Fischel, 1991; Romano, 1993), and, on the other, institutional investors and economists charging that the system is deeply flawed because it gives managers way too much discretion (Jensen, 1993). The outcome of this struggle is yet to be determined (O'Sullivan, 1999; Useem, 1996) as American managers and boards reacted to the rise of institutional investors and financial deregulation with a mixture of defensive measures (e.g., poison pills) and adaptive actions (e.g., managerial incentives). What seems clear is that top managers have both been harmed and benefited by this struggle. Although the rate of CEO forced succession has increased, average CEO compensation was in 1999 roughly 419 times greater than for the average manufacturing worker, up from a multiple of 44 in 1965 (O'Sullivan, 1999).

The data and analysis by La Porta and colleagues (1998, 1999) provide further credence to the argument that political forces will shape and perhaps derail the homogenizing effects of globalization. They argue that the internationalization of capital markets is not enough to unsettle the existing ownership structures, which are "primarily an equilibrium response to the domestic legal environments that companies operate in" (La Porta et al., 1999, p. 512). Given that concentrated ownership produces a centralization of power, La Porta and colleagues (1999, p. 513) are "skeptical about the imminence of convergence of corporate ownership patterns, and of governance systems more generally, to the Berle and Means model."

The creation of the single market among the European Union (EU) member countries illustrates how politics mediate in the relationship between globalization pressures and corporate governance outcomes. The process of European integration has so far failed to generate enough momentum to bring about a convergence in corporate governance laws and practices. In a revealing paper, Lannoo (1999, p. 270) observes that European legislators have fought "very hard" over the last *25 years* "to bring some harmonization to standards for corporate control in the EU," but that their efforts have been thwarted by "irresolvable disagreements among member states." Instead, he maintains, "either industry or the European Commission should take the initiative to come up with a European-wide code of best practice, in the light of the improbability that any significant harmonization of corporate governance standards will occur at the European level." However, Susan Binns (1998), of the European Commission, notes that researchers are "still searching for economic evidence that one approach [to corporate governance] produces better results than another," and concludes that it is better to leave "these issues for regulation at the national level," albeit avoiding "too much divergence in national rules and practices."

Systems in which banks are successful players in corporate governance are unlikely to evolve toward the market-based system if only because banking interests will be opposed (O'Sullivan, 1999). Quantitative research on banking suggests that universal banks active in all sorts of financial services from commercial banking to investment banking and stock trading—a key component of the German corporate governance system—achieve "a better risk-return trade-off, due to superior monitoring and information collection capacity" than banks in market-based financial systems such as the American or the British (Steinherr & Huveneers, 1994, p. 271). It is not unusual for universal banks to be among the best managed and most profitable in the world, even when shareholders' return is the performance measure (*The Banker*, July 1998, p. 20; Guillén & Tschoegl, 1999; Guillén, 2001a, chap. 7). Scholars arguing against convergence observe that if universal banks with strong ties to industry are so profitable in some countries they are unlikely to implement reforms detrimental to their interests.

Table 1. Dimensions of Corporate Governance in Selected Cross-National Empirical Studies

Dimension:	Useem 1984	Charkham 1995	Shleifer & Vishny 1997	La Porta et al. 1998, 1999	Bühner et al. 1998	OECD 1998a	Loredo & Suárez 1998	O'Sullivan 1999	Present study
Ownership structure	—	Yes	Yes	Yes*	Yes*	Yes	—	Yes*	Yes*
Impact of foreign investment	—	—	—	—	—	—	—	—	Yes*
Role of the banks	—	—	Yes	—	Yes	—	—	Yes	Yes*
Role of institutional investors	—	Yes	Yes	—	—	Yes	—	Yes*	Yes*
Role & nature of the board of directors	Yes	Yes	—	Yes	Yes	Yes	Yes*	—	—
Interlocking directors	Yes*	Yes	—	—	Yes	—	—	—	—
CEO pay components	—	—	—	—	—	—	—	—	Yes*
Market for corporate control (hostile takeovers)	—	—	Yes	—	Yes	—	—	—	Yes*
Number of countries	2	5	4	27-49	3	14	8	3	6-43

Note: * Quantitative indicator used.

CONVERGENCE OF CORPORATE GOVERNANCE SYSTEMS: THE EVIDENCE

Data

A key problem besetting the cross-national study of corporate governance is the dearth of empirical indicators for the relevant dimensions. Table 1 summarizes the indicators used by selected cross-national studies to capture differences in corporate governance. Previous studies vary in terms of the range of indicators used, the nature of the indicator (quantitative or qualitative), and the number of countries included. With the only exception of the recent papers by La Porta and colleagues (1998, 1999) and Shleifer and Vishny (1997), the extant literature on cross-national corporate governance practices is generally based on evidence drawn from a small number of countries. Moreover, previous studies tend to rely on qualitative indicators to a much greater extent than quantitative ones. No previous study has provided longitudinal indicators of the various dimensions of corporate governance.

The choice of empirical indicators for this paper was based on three criteria. First, the previous literature was consulted to develop a list of relevant aspects and indicators capturing the multidimensional character of corporate governance (see Table 1). Second, only indicators that speak to the tenets of the globalization thesis about convergence in corporate governance, and to the legal, institutional, and political cases against convergence were considered. Third, only quantitative indicators available for at least two points in time were included.

Six indicators met these criteria. The first two assess to what extent pressures toward convergence on the Anglo-Saxon model are present. The first indicator is the stock of foreign direct investment by firms under the influence of various corporate governance systems in their home countries, while the second is the presence of institutional investors in each country, which measures pressures toward convergence on a transparent and shareholder-friendly model like the Anglo-Saxon system. The remaining four indicators capture specific dimensions of corporate governance as reflected in the extant literature: the proportion of listed corporate equity held by different types of shareholders, which gives an indication of the various groups with a claim on the corporation; the balance between debt and equity financing struck by nonfinancial firms, which speaks to the influence of banks in corporations; the adoption of long-term incentives in CEO remuneration, which is indicative of attempts by shareholders to align the interest of the CEO with their own; and the occurrence of hostile takeovers, which indicates the existence of a market for corporate control. These six indicators cover essential dimensions of corporate governance as identified in the existing empirical literature (Table 1). Unfortunately, data on two of the dimensions reflected in Table 1—the role and nature of the board of directors and the prevalence of interlocking direc-

Table 2. The Origin of Foreign Direct Investment by Type of Home-Country Corporate Legal Tradition, 1980 and 1997

Country	*Foreign Direct Investment Outward Stock (% of world total)* 1980	1997
Anglo-Saxon legal tradition:	65.57	49.55
Australia	0.43	1.48
Canada	4.53	3.89
Hong Kong	0.03	3.88
India	0.00	0.02
Ireland	...	0.16
Israel	0.01	0.16
Malaysia	0.08	0.44
New Zealand	0.25	0.19
Nigeria	0.00	0.36
Pakistan	0.01	0.01
Singapore	1.84	1.23
South Africa	1.09	0.34
Thailand	0.00	0.11
United Kingdom	15.33	11.67
United States	41.97	25.63
French legal tradition:	15.58	21.07
Argentina	0.01	0.03
Belgium	1.15	2.72
Brazil	0.12	0.25
Chile	0.01	0.16
Colombia	0.03	0.04
Egypt	0.01	0.01
France	4.50	6.40
Greece	...	0.02
Indonesia	...	0.12
Italy	1.40	3.53
Mexico	0.03	0.09
Netherlands	8.03	6.02
Peru	0.00	0.00
Philippines	0.03	0.03
Portugal	0.02	0.15
Spain	0.23	1.38
Turkey	...	0.01
Venezuela	0.00	0.10
German legal tradition:	16.20	23.57
Austria	0.10	0.42
Germany	8.22	9.21
Japan	3.74	8.04
South Korea	0.03	0.51
Switzerland	4.10	4.43
Taiwan	0.02	0.97
Scandinavian legal tradition:	1.96	4.32
Denmark	0.39	0.73
Finland	0.14	0.57

(continued)

Table 2. (Continued)

Country	*Foreign Direct Investment Outward Stock (% of world total)* 1980	1997
Norway	0.36	0.91
Sweden	1.07	2.11
Total four legal traditions	99.31	98.51
World Outward FDI Stock ($bn)	524.6	3,541.4

Source: UNCTD (1998); La Porta et al. (1998, pp. 1130-1131).

tors—are not available for a sufficiently large number of countries and for at least two points in time.

It is also important to note two further features of the data. First, they are always aggregated at the national level of analysis, which may conceal some interesting within-national differences. For example, not all firms in Japan find themselves under the governance structure of a *keiretsu*, and not all German companies have a bank as a main shareholder. Second, given that measurement of the various dimensions was performed independently, convergence of corporate governance may be assessed for each dimension individually, without assuming that all dimensions have to evolve in unison.

The tabular data are presented for individual countries grouped according to the legal tradition underpinning its corporate governance system. The influential classification developed by La Porta and colleagues (1998) was followed to group countries. It distinguishes among the Anglo-Saxon, French, German, and Scandinavian legal traditions. Taken together, these four categories account for virtually every capitalist country in the world. Classifying countries in groups of legal traditions facilitates assessing the evidence presented. In particular it makes it easier to see if trends over time are toward convergence or divergence.

Results

The globalization thesis argues that the spread of foreign multinationals will force a convergence of corporate governance models. While it may be true that multinationals are a homogenizing force, it is not at all clear why it should produce a worldwide convergence of corporate governance on the American model as opposed to another model or a hybrid. The reason is that the impact of foreign investment originating from countries with an Anglo-Saxon legal tradition and a shareholder-centered corporate governance system is waning. Table 2 presents some telling statistics. Following La Porta and colleagues' (1998) classification of countries in terms of legal tradition, it turns out that the proportion of the world's stock of outward foreign investment accounted for by the Anglo-Saxon countries is *falling*, from 66 percent in 1980 to just over 50 percent in 1997. Meanwhile, the combined shares of the countries influenced by the German, French, or Scandina-

Table 3. Financial Assets of Institutional Investors (Insurance Companies, Pension Funds, and Investment Companies)

Country	Total financial assets (% GDP)		Financial assets held in shares (% GDP)	
	1990	1995	1990	1995
Anglo-Saxon legal tradition:				
Australia	47.5	75.9	18.5	38.0
Canada	58.6	87.9	11.7	21.1
United Kingdom	114.5	162.3	75.6	112.0
United States	127.4	170.8	29.3	61.5
French legal tradition:				
Belgium [a]	44.8	59.4	8.5	11.3
France	52.9	75.3	11.6	16.6
Greece [b]	6.5	23.0	0.7	1.4
Italy	13.3	20.6	2.1	3.5
Mexico [c]	8.6	3.9	1.4	0.8
Netherlands	133.4	158.4	18.7	36.4
Portugal [d]	9.2	35.3	0.2	2.5
Spain [e]	16.3	38.3	1.8	2.3
Turkey	0.6	0.7	0.1	0.0
German legal tradition:				
Austria [f]	24.5	35.2	1.2	3.2
Germany	36.5	46.1	3.3	5.5
Japan	81.7	77.4	18.8	13.9
South Korea	48.1	57.7	9.1	7.5
Switzerland [g]	120.2	78.1	19.2	39.1
Scandinavian legal tradition:				
Denmark	57.4	66.8	11.5	18.7
Finland	33.2	50.0	5.6	10.0
Norway	36.0	42.6	5.0	6.8
Sweden	85.7	114.8	24.0	40.2
Transition economies:				
Czech Republic [h]	...	24.0	...	11.5
Hungary	...	4.5	...	0.1
Poland [i]	...	1.6	...	0.4
Unweighted mean [j]	52.59	67.30	12.63	20.56
Standard deviation [j]	41.31	47.85	16.46	26.37

Notes: [a] Exc. pension funds in 1995; [b] Exc. insurance and investment companies; [c] Exc. pension funds; [d] Exc. insurance companies in 1995; [e] Exc. non-autonomous pension funds; [f] Exc. pension funds in 1990; [g] Exc. pension funds in 1995; [h] 1994 data for 1995; [i] Exc. pension funds for 1995; [j] Exc. the transition economies.

Source: OECD, *Institutional Investors: Statistical Yearbook 1997.*

vian legal traditions has grown from 34 to 49 percent over the same time period. It seems, therefore, that if there is convergence in corporate governance it may not be on the shareholder-centered model characteristic of the U.K or the United States but rather on some kind of hybrid.

Table 4. Listed Corporate Equity by Type of Shareholder (in percentages)

Type of Shareholder	USA			UK [c]			Germany			France			Sweden		Japan [d]		
	1986	1993	1996	1976	1993	1996	1985	1993	1996	1982	1993	1996	1993	1996	1983	1993	1996
Households	51	49	49	28	18	21	17	17	15	38	19	23	16	19	27	24	20
Financial sector:	51	46	47	60	61	68	15	29	30	24	8	30	23	30	42	44	42
Banks	...	...	6	...	1	1	...	14	10	...	3	7	1	1	...	22	15
Pension funds [a]	...	31	28	...	51	50	...	7	12	...	1	9	8	14	...	18	12
Investment funds [b]	...	11	12	...	7	8	...	8	8	...	2	11	14	15	...	3	-
Other financial firms	...	4	1	...	2	9	...	-	-	...	2	3	-	-	...	1	15
Nonfinancial firms	15	-	-	5	2	1	51	39	42	22	59	19	34	11	25	24	27
State	0	-	-	3	1	1	10	4	4	0	4	2	7	8	0	1	1
Foreign	6	5	5	4	16	9	8	12	9	16	11	25	9	32	5	7	11
Other	-	-	-	-	2	-	-	-	-	-	-	-	10	-	-	-	-
Total	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100

Notes: - not applicable.
... not available.
[a] Includes insurance companies.
[b] Includes mutual funds.
[c] UK figures are for end of 1994 instead of the end of 1996.
[d] For Japan, pension and investment funds are included under other financial institutions.

Source: OECD (1995, p. 17, 1998b, p. 16); Berglof (1988).

Also contrary to the predictions of the globalization thesis, institutional investors such as insurance companies, pension funds, and investment companies have a very unequal presence across countries. Moreover, the differences across countries are growing, not shrinking. Table 3 presents the available data for over 20 rich countries plus Mexico, South Korea, the Czech Republic, Hungary, and Poland. The influence of institutional investors—as measured by their financial assets held in shares of companies as a percentage of GDP—is the highest in the UK (at 112%), followed by the United States (62%; see Useem, 1996), and a handful of relatively small countries within the 30-50 percent range (Australia, Netherlands, Switzerland, and Sweden). Most countries shown in the table have ratios below 20 percent, and over half of them do not even reach 10 percent. Between 1990 and 1995 the influence of institutional investors barely grew in many countries (Greece, Italy, Portugal, Spain, Austria, Germany, Norway), and actually decreased in a few others (Mexico, Turkey, Japan, South Korea). Overall, differences in the presence of institutional investors across countries are widening, as revealed by the standard deviations, which have increased from 41 to 48 in the case of total financial assets, and from 16 to 26 in the case of assets held in shares.

Patterns of stockholding are proving to be remarkably resilient. Table 4 presents the breakdown for countries belonging to each of the four legal traditions. The Anglo-Saxon tradition differs sharply from the German and Scandinavian ones. Moreover, the differences are not getting smaller over time. It is only in the case of France that one observes a clear shift toward a greater presence of institutional investors, but this is coming at the expense not of banks but of households. Thus, large stockholders (banks and other financial institutions, and nonfinancial firms) continue to be the norm in countries whose legal tradition does not protect shareholder rights above and beyond those of other stakeholders. As hypothesized by La Porta and colleagues (1998, 1999) and Bühner and colleagues (1998, p. 147, prop. 1), large organizational actors are major shareholders in countries that did not adopt the common law provisions of the Anglo-Saxon tradition.

The role of banks as providers of funds to industry is another key aspect in which countries differ from one another. Figure 1 presents the debt-equity ratios of nonfinancial firms over the last three decades. Only the trend lines for such small countries as Austria, Belgium, Finland, and Norway show a convergence on the Anglo-Saxon pattern of relatively balanced debt and equity. German, Italian, Japanese, South Korean, and French nonfinancial firms show few signs of convergence over the last two decades. Figure 2 shows the unweighted means and standard deviations for each year between 1975 and 1995. Mean debt-equity ratios dropped during the mid-1980s from about 270 to about 160 percent, and the standard deviation from 160 to 100 percent, approximately. Since 1987, however, neither the mean nor the standard deviation have dropped any further in spite of the rapid increase in trade, foreign direct investment, and capital mobility across bor-

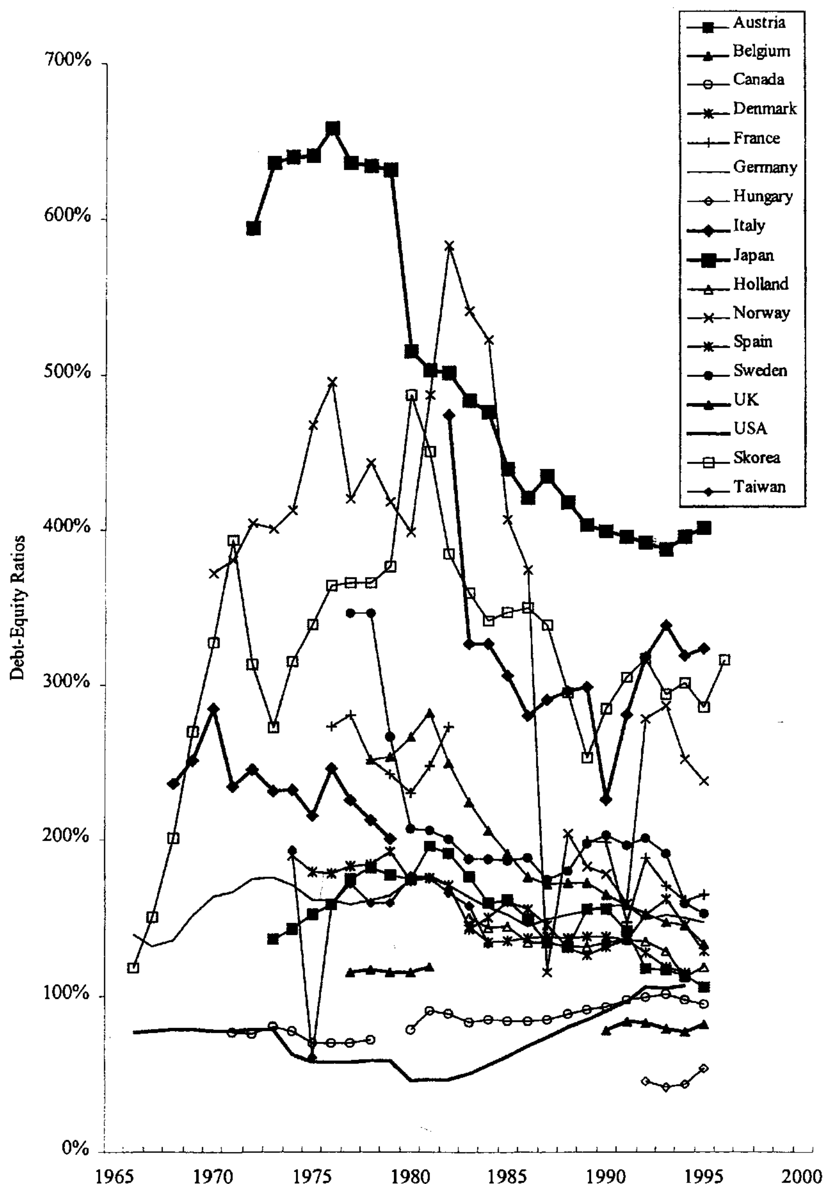

Figure 1. Debt-Equity Ratios for Nonfinancial Firms

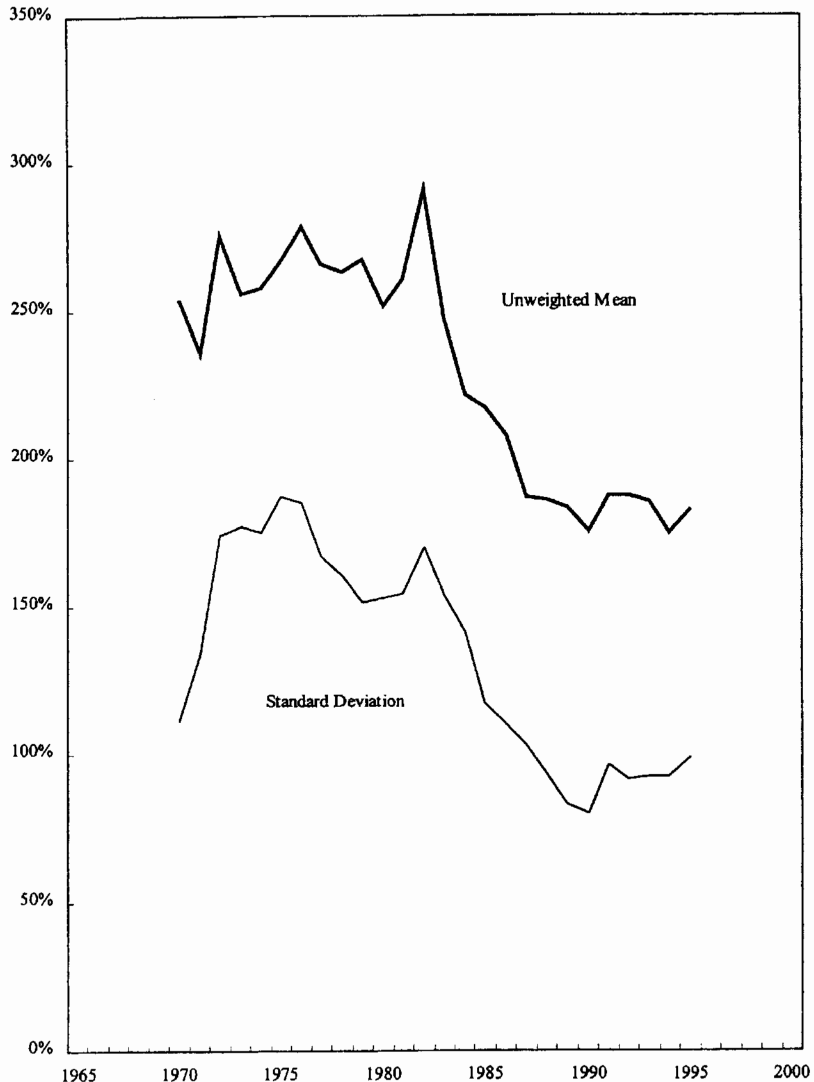

Figure 2. Mean and Standard Deviation of Debt-Equity Ratios, Selected Countries, 1975-1995

Table 5. Long-Term Incentives in CEO Pay

Country	*Long-Term Incentives As % of Total Remuneration* 1988	1993	1998
Anglo-Saxon legal tradition:			
Australia	0	1	2
Canada	14	16	14
Hong Kong	0	0	12
Malaysia	...	...	12
New Zealand	...	...	0
Singapore	0	0	12
South Africa	...	...	10
United Kingdom	15	15	17
United States	28	34	36
French legal tradition:			
Belgium	0	0	6
Brazil	0	0	11
France	15	16	14
Italy	0	4	6
Mexico	0	0	0.1
Netherlands	0	0	9
Spain	0	0	0
Venezuela	0	0	0
German legal tradition:			
Germany	0	0	0
Japan	0	0	0
South Korea	0	...	0
Switzerland	1	4	3
Scandinavian legal tradition:			
Sweden	0	0	0
Unweighted mean [a]	4.06	5.00	7.89
Standard deviation [a]	8.17	9.32	9.17

Note: [a] Excludes countries with missing data, that is, Malaysia, New Zealand, South Africa, and South Korea.

Source: Towers Perrin, *Worldwide Total Remuneration*, various years.

ders. Thus, there is little evidence that the patterns of financing by nonfinancial firms are changing as a result of globalization.

In the shareholder-centered model of corporate governance, there is a tendency to introduce incentives to align the interests of the managers with those of the shareholders. The adoption of long-term incentives to encourage CEOs to maximize shareholder wealth is extremely heterogeneous across countries. Not surprisingly, only the Anglo-Saxon countries have a strong tendency to use such incentives (Table 5). Among those in the French legal tradition, only France, Brazil, and the Netherlands have adopted such incentives. In the case of France, O'Sullivan (1999) reports that CEOs, and not shareholders or directors, are behind the adoption. Countries in the German or Scandinavian legal traditions

Table 6. Announced Hostile Corporate Takeovers

Country	Transaction Value (% of World Total): Targets 1980-1989	Targets 1990-1998	Acquirers 1980-1989	Acquirers 1990-1998
Anglo-Saxon legal tradition:	96.9	89.0	90.4	88.4
Australia	1.5	2.6	2.9	2.1
Canada	1.1	6.1	4.6	4.9
Hong Kong	.3	.8	.2	.0
India	.0	.0	.0	.0
Ireland	.1	.2	.0	.2
Israel	.0	.0	.0	.0
Malaysia	.1	.1	.1	.1
New Zealand	.0	.1	.0	.4
Nigeria	.0	.0	.0	.0
Pakistan	.0	.0	.0	.0
Singapore	.0	.1	.0	.1
South Africa	.0	.1	.0	.2
Thailand	.0	.0	.0	.0
United Kingdom	18.4	18.2	18.6	17.5
United States	75.3	60.7	63.9	63.0
French legal tradition:	2.1	6.5	5.0	6.5
Argentina	.0	.0	.0	.0
Belgium	.0	.0	.0	.1
Brazil	.0	.0	.0	.0
Chile	.0	.0	.0	.0
Colombia	.0	.0	.0	.0
Egypt	.0	.0	.0	.0
France	1.9	5.4	2.9	3.6
Greece	.0	.0	.0	.0
Indonesia	.0	.0	.0	.0
Italy	.0	.7	.3	2.5
Mexico	.0	.0	.1	.0
Netherlands	.1	.0	1.6	.1
Peru	.0	.0	.0	.0
Philippines	.0	.0	.0	.0
Portugal	.0	.2	.0	.2
Spain	.0	.1	.0	.1
Turkey	.0	.0	.0	.0
Venezuela	.0	.0	.0	.0
German legal tradition:	.7	2.1	2.7	3.1
Austria	.0	.1	.0	.1
Germany	.2	1.8	.2	2.2
Japan	.5	.0	.4	.0
South Korea	.0	.0	.0	.1
Switzerland	.0	.1	2.1	.7
Taiwan	.0	.0	.0	.3
Scandinavian legal tradition:	.1	1.3	.3	1.1
Denmark	.0	.0	.0	.0

(continued)

Table 6. (Continued)

Country	Transaction Value (% of World Total): Targets 1980-1989	Targets 1990-1998	Acquirers 1980-1989	Acquirers 1990-1998
Finland	.0	.1	.0	.0
Norway	.0	.6	.0	.4
Sweden	.1	.6	.2	.7
Unweighted mean	2.32	2.30	2.28	2.32
Standard deviation	11.74	9.60	10.06	9.88
World Total (million $)	805,440	423,652	805,440	423,652

Note: Dollar figures have been adjusted for inflation using the U.S.'s GDP deflator (1992=100).
Source: SDC Platinum (Securities Data Company).

remain oblivious to the trend toward long-term incentives in CEO pay, although there are indications that shareholders are reasserting their influence (O'Sullivan, 1999). As with the presence of institutional investors, differences in the use of long-term incentives have grown slightly between 1988 and 1998, as revealed by the increase in the standard deviation.

Perhaps the clearest indicator that corporate governance models are not converging has to do with the market for corporate control. The shareholder-centered model has historically been more susceptible to hostile takeover activity. During the 1980s shareholder activism and financial deregulation in the United States and U.K. contributed to a sharp rise in hostile takeovers (O'Sullivan, 1999; OECD, 1998b). The occurrence of hostile takeovers, however, is not a worldwide phenomenon, but one largely confined to the Anglo-Saxon countries, both in terms of targets and acquirers (Table 6). Companies in the United States and U.K. alone accounted for 94 percent of worldwide hostile targets in terms of transaction value in 1980-1989, and 79 percent in 1990-1998. American and British acquirers were responsible for roughly 80 percent of worldwide hostile takeovers during the 1980s and 1990s.

Among countries in legal traditions other than the Anglo-Saxon, only France stands out for its relatively high (and rising) level of hostile takeover activity targeting its companies. French companies, however, have become less likely to launch hostile bids. Italian, German, Norwegian, and Swedish acquirers have become more active in the 1990s than in the 1980s, but their absolute level of activity is still very low compared to the Anglo-Saxon countries, even after the decline of hostile activity in the United States and the U.K. during the 1990s. Hostile takeover activity remains stagnant at relatively low levels or has decreased in such countries as the Netherlands, Spain, Switzerland, and Japan, and even in some countries influenced by the Anglo-Saxon tradition, for example, Ireland and Malaysia. The rest of the world remains largely unaffected by hostile takeovers. Compared to the 1980s, differences across countries in the incidence of hostile

takeovers have dropped slightly during the 1990s (from a standard deviation of 11.74 to 9.60), but remained approximately the same in terms of the home country of the acquirer firm.

DISCUSSION

The literature on corporate governance and globalization contains important theoretical disagreements. Scholars, however, have found very little evidence suggesting convergence. Except for the cases of France and, to a lesser extent, Belgium, the Netherlands, and the Scandinavian countries, there are no discernible shifts in stockholding, debt-equity ratios, long-term incentives in CEO pay, or hostile takeovers. Moreover, changes in the composition of foreign direct investment suggest that if there is convergence, it may not be on the shareholder-centered model but on a hybrid. One should keep in mind, however, that the trend toward globalization will continue and that it may be too early to tell the extent to which national corporate governance models are resistant to it. At any rate, it seems safe to conclude that, given the trends over the last 20 years, the wholesale convergence of corporate governance systems across countries is unlikely in the near future. Convergence along selected aspects or dimensions is more likely, although it has thus far affected only a handful of countries.

The lack of convergence in indicators of corporate governance in the face of growing globalization is consistent with the findings of previous studies focusing on other economic and organizational variables. The varieties of capitalism research tradition in political science has contributed innumerable case studies and quantitative analyses demonstrating that, in spite of globalization, there is little convergence in terms of economic policymaking across countries (Garrett, 1998, 1999; Hollingsworth et al., 1991; Soskice, 1998; Streeck, 1991, 1995). Comparative organizational sociologists have also presented qualitative and quantitative evidence to the effect that firms pursue different modes of economic action and adopt different organizational forms depending on the institutional and social structures of their home countries even as globalization increases (Orrù, Biggart, & Hamilton, 1996; Biggart & Guillén, 1999; Guillén, 2001a). Taken together, the empirical evidence provided by sociologists and political scientists supports well the case for diversity, or at least resilience, in cross-national organizational patterns in the midst of globalization. This paper adds to this growing body of comparative literature by documenting little convergence in patterns of corporate governance even with growing globalization. As Thomsen and Pedersen (1996) observe, there is no clear relationship between differences in corporate governance and differences in firm-level performance across countries. These findings invite further theoretical work to specify how exactly corporate governance practices affect firm strategy, and, in turn, how differences in strategy due to corporate governance translate into levels of performance. As the extant literature suggests, future theoretical work may aim at conceptualizing how different governance practices enable firms to pursue different strategies leading to comparable levels of high performance in the global economy (Bühner et al., 1998; Kim & Hoskisson, 1996; Lazonick & O'Sullivan, 1996).

The absence of discernible convergence as a result of globalization invites a reconsideration of the effects of increasing cross-border economic activities. The social science literature on globalization provides two useful ways of addressing this apparent problem. First, the reason why globalization does not seem to produce convergence in corporate governance may have to do with the fact that increasing economic exchange across borders does not necessarily force actors to adopt similar patterns of behavior. Social scientists have underlined that what is perhaps most distinctive about globalization is that it intensifies our consciousness of the world as a whole, making us more aware of each other, and perhaps more prone to be influenced by one another, although not necessarily more like each other (Robertson, 1992, p. 8; Albrow, 1997, p. 88; Waters, 1995, p. 63; Guillén, 2001a).

The second way to better understand the effects of globalization on an organizational variable is to reconsider the nature of globalization itself, without denying its existence. A variety of social scientists have argued and documented with empirical evidence that globalization is far from being a uniform process or an inexorable trend. Rather, it seems to be a more fragmented, incomplete, discontinuous, and contingent process than the proponents of convergence generally admit because it affects different sectors of the economy and regions of the world in different ways and to different degrees (Hirst & Thompson, 1996). Social and political theorists as well as historians and anthropologists have elaborated a comprehensive theoretical and empirical critique of the presumed convergent consequences of globalization that may provide the foundation for a better understandings of its impact on cross-national organizational patterns (Cox, 1996, p. 28, 30 n. 1; Mazlish, 1993, p. 4; Giddens, 1990, pp. 64, 175, 1991, pp. 21-22; Albrow, 1997, pp. 86, 144, 149, 189; Friedman, 1994, pp. 210-211; McMichael, 1996, pp. 177, 190-197, 234-235; Robertson, 1992, pp. 27, 145).

CONCLUSION: TOWARD A COMPARATIVE ANALYSIS OF CORPORATE GOVERNANCE

The three arguments against convergence in corporate governance—legal, institutional, political—provide enough reason to cast serious doubt on the idea that there is convergence in corporate governance, whether on the shareholder-centered model or a hybrid. Globalization seems to encourage countries and firms to be different, to look for a distinctive way to make a dent in international competition rather than to converge on a best model. In a global context, corporate governance must support what a country and its firms can do best in the global econ-

omy. Globalization seems not to be about convergence to best practice, but rather about leveraging difference in an increasingly borderless world. This argument and the empirical findings reported in this paper are consistent with previous research on how different corporate governance systems enable firms to pursue different strategies (Bühner et al., 1998; Kester, 1996; Lazonick & O'Sullivan, 1996).

The complexity of both globalization and corporate governance certainly invites additional research. We are in great need of further theoretical work to clarify how corporate governance affects competitiveness and the well-being of various groups in society. We also need better data and on more countries. Better indicators will facilitate making comparisons on specific dimensions as opposed to looking for wholesale convergence of entire corporate governance systems. Given the infancy of our efforts to understand the impact of globalization on corporate governance, it seems sensible to ask for more studies using a comparative approach. We need to engage in comparative work in the dual sense of using multiple methods of data collection and analysis, and of applying our theoretical and empirical tools to a variety of research settings defined at various levels of analysis (Cheng, 1989, 1994a, 1994b; Skocpol, 1984; Smelser, 1976; Tilly, 1984). The differences and similarities across such settings ought to give us a handle on the patterns according to which the effects of globalization change from one setting to another.

ACKNOWLEDGMENTS

The author thanks the University of Pennsylvania's Research Foundation for funding. He is also grateful to Work Study research assistants Anne Chun, Yi Jun, and Gina Mok for their constancy and precision. Gerald Davis, Michael Useem, Edward Zajac, two anonymous referees, and the editor, Joseph Cheng, provided useful comments.

NOTES

1. One exception to the large literature on cross-national differences in corporate governance is Corbett and Jenkinson (1996), who document that there are only small differences in the financing patterns of firms across countries.

2. It is not at all clear, however, that financial and money managers would prefer to see a wholesale convergence in patterns of corporate governance across the world. The reason lies in that different corporate governance systems are associated with peculiar competitive strategies and responses to the business cycle (Kester, 1996; Kim & Hoskisson, 1996; Lazonick & O'Sullivan, 1996; Bühner et al., 1998). Accordingly, the chances that stock markets in the world are uncorrelated with each other increase with the diversity in patterns of corporate governance. Uncorrelated stock markets "enrich the menu" for diversification because they provide greater opportunities for global portfolio investment, one of the key ways in which financial managers achieve superior performance over the long run (Malkiel & Mei, 1998, p. 23; Siegel, 1998, pp. 139, 286; Ibbotson & Brinson, 1993; *Financial Times*, 1995, pp. 447-453).

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DETERMINING THE EFFECTS OF EXIT, VOICE, LOYALTY, AND NEGLECT ON CHANGING A DUBIOUS DECISION IN CANADA AND HONG KONG

Kevin Au and Brian Bemmels

ABSTRACT

Hirschman (1970) argued that employee behaviors signaling dissatisfaction with managerial decisions may provoke management to change their course of action, and that such changes may ultimately facilitate the recuperation of a declining organization. This paper includes two studies that test Hirschman's proposition, one in Canada and the other in Hong Kong, and compares the results to identify cross-cultural differences. Undergraduate subjects played the role of a marketing director and made an investment decision in part one of a scenario study. They were then informed in part two of the study that their investment was unsuccessful. Additionally, an important group of subordinates showed exit, voice, loyalty, or neglect (EVLN) behaviors in response to the poor decisions. Results showed that EVLN behaviors had little direct influence on the subjects' subsequent decisions in part two of the study. Further analysis suggests, however, that the EVLN behaviors of subor-

Advances in International Comparative Management, Volume 13, pages 205-225.
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ISBN: 0-7623-0589-4