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Comparative Corporate Governance

Findings from a Workshop
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Workshop on Comparative Corporate Governance, March 14-15, 2008

Introduction

The link from scholarly research to front-page headlines is rarely as tight as for the topic of financial control within the modern corporation. On March 14-15, a group of researchers met for a two-day workshop at the UC Berkeley Institute for Research on Labor and Employment (IRLE) to consider current perspectives on comparative corporate governance – the rules that establish property rights and authority relations within the firm. Coming from several different disciplines and geographic specialties, the group was well placed to question the priorities of corporate governance in the United States -- transparency, shareholder control, and smoothly functioning takeover markets. Although these priorities are sometimes viewed as a universal model of economic efficiency, most participants at this workshop agreed that they were a recent invention. And as other attendees noted, one had to look no further than the collapse of the investment company, Bear Stearns, to see the reasons for reassessing the conventional wisdom. If anything, comparative experience shows that the preoccupation with shareholder sovereignty has customarily been combined in other countries with such priorities as regulation for market stability, labor representation on boards of directors, pension-fund security, and varied forms of social responsibility.

Long a concern of specialists in corporate law, managerial economics, and organizational sociology, corporate governance is increasingly a topic of study across the social sciences. This workshop was convened by J. Nicholas Ziegler of Berkeley's Political Science Department, building upon an earlier set of discussions that took place at the University of California, San Diego at the initiative of Peter Gourevitch. This working paper provides a summary of the presentations made at the workshop and the ensuing debates among participants. It concludes with a discussion of future directions for inquiry in this research field.

Corporate Governance and the Law

Given that the law and economics have dominated academic research on corporate governance for several decades, it is not surprising that the role of law reappears as a pertinent theme in the relatively new forays into corporate governance by political scientists. The law and economics approach assumes stable preferences for rational actors and ascribes explanatory power to the legal rules by which an economy is shaped, for example the civil legal heritage of France vs. the common law heritage of the United Kingdom. Political scientists, in contrast, have a more flexible and dynamic view of the law. While the deployment of law as an independent variable can yield useful insights about corporate governance, considering law as the dependent variable can also be fruitful. The limits of the law become apparent when one considers how different interest groups mobilize to introduce new legislation and to modify existing laws. New regulation also creates constituencies that previously did not exist. Several presenters at the conference grappled with these issues.

One of the conference attendees, John Cioffi, argued that political scientists with an interest in the legal context of corporate governance should focus not just on corporate law, but also securities law and labor relations law. Legislation in all three areas is shaped by the relative power and interests of the key actors, whom Cioffi designates as ‘corporate insiders’: shareholders, managers, and employees. Cioffi sees this tripartite juridical nexus as constituting enduring national models of corporate governance.

Cioffi’s presentation on the comparative political economy of recent reforms of corporate governance in the United States and Germany dealt with the ways in which legal interventions shaped the incentives of corporate insiders, as well as the ways in which laws are inherently political as embodiments of social values and norms. One of the more interesting unresolved problems in his paper was the surprising growth in legislation favoring shareholders. This raises a puzzle from the standpoint of political science, which predicts that decentralized actors with diffuse interests will face more

collective action problems in registering their preferences with legislators than will more concentrated and organized interest groups. Cioffi therefore urged us to consider whether large financial institutions such as pension funds – which are highly effective at lobbying – serve as organizational proxies for focusing otherwise diffuse shareholder interests.

Cioffi also considered the role of political parties in corporate governance reform. In his view, the center-left has an ideological and programmatic affinity for regulating the economy, but in ways that have shifted somewhat over the 1990s. Prior to the 1990s, the center-left found it difficult to convince voters that it could run the economy. However, post-1990, the center-left has tried to recast itself as playing a modernizing role, and has courted the electoral support of shareholders – with mixed results. In order to find evidence for this shift in behavior among center-left parties in advanced industrialized countries, Cioffi urged future researchers to consider changes in the three most relevant types of law. Although it remains underdeveloped in the United States, labor law can in other countries powerfully limit managerial initiative. In securities law, Cioffi identified patterns suggesting tendencies toward international convergence. By contrast, corporate law remains nationally distinct. Within these broad categories, Cioffi pointed toward specific legal mechanisms that merit more attention. These mechanisms might stem from changes to market-enabling rules for transparency and disclosure or from structural regulations affecting the distribution of power within firms – but both were likely to generate fractious political battles that could be traced by future researchers.

Cioffi's paper sparked a debate about the most relevant locus of variation in corporate governance. While the several types of law that Cioffi highlighted could elicit varied political coalitions within a single country, Pepper Culpepper suggested that the key differences were nonetheless cross-national, because the overarching rules were ultimately national in scope. Peter Gourevitch asked whether the importance of law and its application to different firms meant industrial sectors were no longer a key identifying characteristic of firms. And Neil Fligstein argued that broad sectoral differences continue to matter, because finance tends to drive change in the rules of corporate governance

while labor relations remain much stickier in most countries. Several participants noted that the group was asking Cioffi for a unified theory of country-, sector-, and firm-level effects before he isolated the impact of legal changes on corporate governance.

Further discussion focused on the analytic position of law in these different arguments. James Hawley said the collective action problems of shareholders were real but sometimes overstated because extra-legal actors such as NGOs could often organize shareholders around issues such as global climate change. Nick Ziegler said the role of the law depended also on the object of explanation, be it changes in a region, a national economy, or the competitiveness of particular firms. Corporate governance was, according to Ziegler, one area which fit surprisingly well into Douglass North's view of political actors as improvising on the rules and going outside of the formal-legal structure when opportunity presented itself. Along the same vein, Heather Haveman argued that research should also focus on the strength of the enforcement mechanisms and the degree of ambiguity of the law, a characteristic that may vary with sector.

By way of reply, Cioffi agreed that there were unresolved issues in the study of corporate governance law, not least because the object of study was itself growing more ambiguous even as its effects at multiple levels of analysis grew more pronounced. He expressed the hope that other scholars would pay greater attention to these issues.

Heterogeneity

The several locations of variation – country effects, sector effects, and firm-level effects – showed that analytically significant differences could occur at multiple levels of analysis. In keeping with this observation, one recurrent theme in the workshop concerned the issue of heterogeneity, which was explicit in the presentations by Richard Deeg, Gary Herrigel, and J. Bradford DeLong.

Richard Deeg introduced the issue by arguing that firms within a single country could show different degrees of convergence on international practices, depending upon their size. While a handful of large German firms have adopted financial models that closely resembled Anglo-Saxon forms of equity finance via public markets, Deeg pointed out that small and medium-sized enterprises (SMEs) largely retain the old form of 'patient finance' for which Germany is well-known. Furthermore, within Europe the traditional national patterns of SME finance remain quite stable, even as the behaviors of large firms in different countries converge on common modes of finance and governance. He explained this divergence in three ways. First, public financing appears more easily available to larger firms than smaller ones, which has brought the pressures of public ownership only to one part of the economy. Second, Anglo-Saxon models of corporate governance require specific financial and accounting expertise which is not native to many of these countries and is expensive to acquire. Thus firms must have the resources to acquire it, and see the benefits of doing so as exceeding the fixed costs. These conditions may apply more readily to larger firms than to SMEs. Finally, while the European Union has undertaken corporate reporting reforms designed to encourage firms to move to more transparent forms of governance, it has also permitted a diversity of forms to persist during a transition period. Thus the effect of reform may be to encourage diversity, not to promote convergence. Deeg closed by questioning how long this diversity would persist in the face of global financial pressures, and what the demise of traditional financial forms would mean for firm behavior in coordinated market economies like Germany.

Nick Ziegler asked what role international services firms – whether in law or banking – could play in making the kinds of expertise Deeg referred to available at reasonable prices. These firms provide two kinds of services: the ability to comply with the law, and the ability to improvise within the law in ways conducive to a firm's unique competitive position. Perhaps small and medium enterprise (SME) resistance to moving to less traditional financial structures has less to do with the ability to comply with the law, and more to do with the skills to make the law work for them. In that case, the

internationalization of law and banking should temper some of the diversity observed by Deeg

Gary Herrigel's presentation elaborated further upon Deeg's bifurcation thesis by arguing that heterogeneity went beyond the division between large, internationally-oriented firms and small, more traditional firms. Herrigel claimed that received typologies for thinking about corporate governance had changed over time within countries, and sometimes failed to illuminate the key tensions even at a single point in time. In particular, Herrigel argued that the contrast between 'dispersed/outsider' and 'concentrated/insider' ownership and control systems was empirically accurate at best for a contrast between on the one hand France, Germany and Japan between 1945 and 1990, and on the other the United Kingdom and United States since 1990.

Herrigel disputed the argument, made most prominently by Alfred Chandler, that the progression from family-ownership to corporations owned by many small shareholders is due to the market being the only place that growing firms can find the increased quantities of capital needed for industrial production. Herrigel noted detailed historical work showing that much of the expansion of US firms in the late 19th and early 20th centuries – a key period at which the size of firms in the United States increased enormously – had in fact occurred through retained earnings rather than financial markets. This literature also showed that time capital markets were in these decades deeper in the United Kingdom and Germany, but that the latter countries did *not* subsequently follow the path Chandler describes to dispersed ownership.

Herrigel advocated an approach to corporate governance that emphasized historical origins before it aimed to generalize. From this point of view, the United States is not the only country that is hard to place in the neat typology of concentrated vs. dispersed ownership. In an overview of corporate governance history since the late nineteenth century, Herrigel argued that the same could be said of Britain, France, Germany, and Japan. Although from today's perspective, the British corporate governance regime appears similar to that of the United States, the route taken to this outcome was different.

Family firms remained important for longer, and relational banking was more common. The French economy boasted few large corporations until the government starting promoting 'national champions' after 1914 and especially after the Second World War. Although the French stock market atrophied after 1945, financial reforms from the 1980s onward gradually opened French markets to international finance, thereby leading to gradually more dispersed shareholding. In Germany, large firms were already important in the nineteenth century, and although some of them were owned by individual families, the German stock market was also an early developer. After World War II, this internal heterogeneity gave way to concentrated ownership and the increased importance of relational banking. There is evidence that more anonymous financial markets have played a greater role since the 1990s, but it remains possible the two models will continue to coexist, just as concentrated and dispersed ownership were both important in pre-1914 Germany. Pre-war Japan also had space for multiple styles of corporate governance, which included joint-stock companies supported by a liquid securities market, state-owned enterprises, and the family-owned but diversified *zaibatsu*. After the war, the latter were disbanded and U.S.-style transparency rules were introduced, but this did not prevent the emergence of the *keiretsu*, diversified enterprise groups in which ownership was characterized by broad cross-holding, often coordinated by banks.

In short, Herrigel emphasized heterogeneity within each country over time. Herrigel's cross-national perspective also introduced a second form of heterogeneity, namely across countries. And like Deeg, Herrigel also allows for heterogeneity between large and small enterprises, raising the possibility that different forms of corporate governance would be of relevance to different sectors of any national economy at any given time. Herrigel's focus on heterogeneity may cut deeper than Deeg's, though, since much of the observed heterogeneity – for instance in countries like Germany and Japan that exhibited multiple styles of corporate governance prior to the second world war – was important even *within* sectors of the economy.

Herrigel concluded his presentation by emphasizing that his challenge to the existing literature should not be taken as radical skepticism about the prospects for research in this area. First, heterogeneity can itself be predicted by rigorous theory: heterogeneity is produced and reproduced by the ongoing process of policy innovation, a process in which there is much scope for exchange, borrowing and imitation across fields and nations. This would explain the scope for secular trends, also diagnosed by DeLong. Second, Herrigel suggested that a deeper historical awareness of the diversity in company organization might reveal underlying patterns of differences. In the subsequent discussion, Herrigel and Peter Gourevitch noted a number of recent examples of research that is sensitive to diachronic heterogeneity within each national context.

J. Bradford DeLong was also skeptical about ideal-typical approaches to the study of corporate governance, and noted that the purported U.S. model of dispersed markets and transparency is in fact historically specific to the post-Reagan era.

DeLong presented a theoretical puzzle for economists: how is it that the demise of the Soviet Union was so widely attributed to the intrinsic inefficiency of the command economy, when at the same time that the U.S. economy came to be dominated by large corporations within which the allocation of resources took place at the command of very few top managers? Wal-Mart, for example, now employs around 1.3 million people and has revenues larger than the GDP of most countries. Although some of this company's operations are subject to the allocation of resources through the price mechanism, a great proportion of the decisions made within the company are directed by the *visible* hand of management. For instance, managers may enter and break contracts with workers and competitors, and are often under no obligation to suppliers or customers to continue to buy or sell the same items that these people have relied on in the past.

In explaining the continuing existence of the large corporation outside the Soviet Union, DeLong scrutinized a number of alternative explanations. . First, those corporations that survive are beneficiaries of a selection process that ensures economic fitness. Unlike Soviet-era enterprises, large corporations in competitive economies must sell products at

market prices and simultaneously find resources to pay for capital and retain workers – or they will lose out to competitors who become the beneficiaries. In this sense, DeLong suggests, market discipline has a real effect by giving market share to the large firms that master the competitive landscape. Second, large corporations may benefit from economies of coordination. There are circumstances – especially regarding products of high complexity – where bureaucratic command may work better than price-driven decisions. For example, a firm that requires discrete numbers of costly components – such as automobiles – had better not manufacture twenty-two engines and then hope that the market can supply the same number of steering wheels for the final product. For such a strategy would reveal quickly that in-house or closely held coordination of the steering components was more efficient than the market.

DeLong's third contending explanation for the efficiency of the modern corporation is effective corporate governance. In theory, the managers of corporations are themselves the employees of the Board of Directors, the avowed purpose of which is to oversee their performance on the behalf of the owners of the corporation. In practice, however, the members of the Board are typically allies of top management, and dispersed shareholders are faced with substantial collective action problems. DeLong argued that a more plausible motivation for managers to succeed is the norm of competition with the managers of other corporations, as well as the fear inspired by the threat of a takeover if the firm makes losses and share prices fall. If corporate governance helps explain the survival of large corporations, DeLong therefore suggested that it did so in ways not supplied by economic theory.

Finally, DeLong advanced a fourth and under-appreciated reason for the continued existence of large corporations, namely that they are given support by the state. If only because they provide such a convenient mechanism for tax-withholding and payment, large corporations perform invaluable functions that the Internal Revenue Service would, without them, have to perform itself.

DeLong's approach showed how the large, modern corporation is, from the viewpoint economic theory, far from being a natural and most efficient form. He described the tension, from the viewpoint of the managers of large firms, between the attractions of diversification versus direct control, and contended no theoretical resolution of this issue was in the offing.

Discussion of these paper began with Kenji Kushida who suggested another way of thinking about how heterogeneity may matter. He recommended looking at companies that produce in a number of different national contexts at any given time, to see how their operations are affected by differences between these sites. In response, Peter Gourevitch observed that this is a research approach that is currently being adopted by some scholars, and is also being applied to international investment funds, though as yet little is known about the magnitude of empirical variation. He raised the possibility that states may be allowing outsiders to operate in a legal space that is different from that in the home countries of these corporations and investment funds, but *also* different from that in which indigenous companies must function. Gourevitch also raised the possibility that foreign firms are cooperating with domestic allies to overcome and/or fit in with unfamiliar governance requirements. He went on to observe that the emergence of new financial players – such as hedge funds and sovereign wealth funds – may be placing new demands on corporate governance regimes that could expose differences in the prevailing logics across countries.

Gregory Jackson also had a suggestion for the observable implications of the stress on heterogeneity. Jackson suggested that whereas scholars have typically focused on the sectors that are particularly favored by certain corporate governance regimes, we might also examine the sectors that should be *disadvantaged* by the arrangements in each regime. This would give us a different angle from which to examine the importance of heterogeneity for corporate practice and outcomes. Political scientists might, for example, want to know why the losers in the various 'varieties of capitalism' do not lobby for reform. As Nick Ziegler observed, this comparative insight was at the core of earlier research on dualism within national production regimes and labor markets.

Gourevitch suggested that the literature on dualism rested on relatively self-contained national systems, while cleavages in today's economy might emerge from the way supply chains locate different kinds of production across different national contexts. One might expect that each type of production would be fit to the most appropriate corporate governance regime, and countries might even specialize on this basis.

Ziegler also suggested that we might be able to differentiate between kinds of trends. Are the most important trends over time within each country – which would imply that national institutions might be of primary importance – or are the most important trends across countries? The final comment went to Herrigel, who again suggested that we focus explicitly on heterogeneity in corporate governance regimes – and the reflexive processes of emulation and re-definition of interests that contribute to ongoing change in these regimes – as objects of future study.

Institutional change

Pepper Culpepper and Gregory Jackson used their conference papers as an opportunity to explore national cases where continuity in some aspects of corporate governance was matched by significant change in others. According to theories of institutional complementarity, like those in the Varieties of Capitalism literature, the close fit between different aspects of corporate governance law and practice – such as the high rate of M&A activity in Liberal Market Economies and the ready availability of short-term capital – should mean that if one aspect changes, the others do too. But in each case, the authors found continuity existing alongside change, raising important questions of why this persistence existed and how it could be explained.

Culpepper explored the case of corporate governance reforms undertaken by the Italian government under the Prodi government of the late 1990s. The coalition that combined to pass the law had all the qualities of a 'transparency coalition' as outlined by Gourevitch and Shinn (2005). Neo-liberal interests opposed to patient capital combined with left-wing parties opposed to the prerogatives of management to pass laws that

dramatically increased the reporting requirements for firms with significant 'blockholding' and gave shareholders new power to sue management for alleged misconduct.

These changes to Italian corporate governance law would, under a complementarities approach, be expected to produce changes in the behavior of managers at the firm level. Stripped of the immunities they enjoyed under a blockholding system, managers would begin acting more like their liberal market economy counterparts. However, the Italian corporate scandals of 2001-2005 suggested that managers had persisted in acting as they always had, regardless of new laws mandating better transparency. The corporate reporting scandal at Parmalat and the Berlusconi government's direct intervention in the sale of an Italian bank suggested that firm managers retained significant autonomy and close linkages with government despite attempts to reform and open up the system of Italian corporate governance.

Culpepper observed this variation more broadly, finding in Dutch and Japanese cases where reforms for corporate governance transparency were successful despite historically patient capital, while patient capital in Denmark and France survived despite comparable pressures to introduce greater transparency and fluidity. He found that the determining variable across these cases lay with the interests and resources of the managers. In cases where legal changes promised to increase shareholder protections while leaving manager power untouched, managers were able to use their disproportionate knowledge about the firm and the economy to achieve their interests regardless of the law. Often, as in the Italian case, this effect occurred through spotty enforcement of the new laws on the books, due to lack of ability or interest on the part of regulators. Where reforms did have effect, as in Japan and the Netherlands, they were often advocated for by managers seeking to use the new minority shareholder protections and rules as assets in their internal struggles over firm management.

The key role of managers helps to explain the observed transnational variation despite the development of transparency coalitions in several countries with traditionally patient

capital. In his presentation, Culpepper argued that managers' interests aren't uniformly defined, but in fact vary according to the situations they face as leaders of firms in specific national political and economic contexts. The particular relationship of the manager to the government, the current political debate, and the firm shape their interests vis-à-vis corporate governance reform. In their unique position as economic actors, managers can affect some elements of law at either the concept or implementation phases, and therefore both the form and content of legislation.

Gregory Jackson explored the question of changing forms of merger activity and the relative prices of firms in this context. Convergence arguments cite increasing frequency of merger and acquisition activity in Coordinated Market Economies (CMEs) as a sign that forms of economic organization are becoming more alike, and in particular more Anglo-Saxon in nature. But Jackson observed that across a host of measures, systematic differences remained in the nature of M&A transactions in Liberal versus Coordinated Market Economies. Markets like those in the United States and United Kingdom saw higher prices, a higher proportion of hostile takeovers, and different financing arrangements than those in Japan, Germany, or France. Jackson argued that such evidence showed how deeply markets were embedded in prior patterns of interaction, to the point that discrete transactions were shaped by non-market social relations. Mergers in Coordinated Market Economies are more likely to occur between firms that had close relations in the past, are more likely to preserve the autonomy of the acquired firm, are less likely to occur via hostile takeover, and are more likely to preserve employment after the transaction is completed. Those in Liberal Market Economies are often arms-length transactions, usually subsumed the operations of the acquired firm under those of the acquirer, and are more often hostile and more likely to result in layoffs. He suggested that this reflects the different roles played by M&A in the two different economic systems. In more coordinated economies, M&A had become a means to carry out needed economic restructuring while minimizing external social costs. In more liberal ones, M&A was part of a broader competition for market share, innovation, and competitiveness.

In the discussion of these papers, several commentators questioned why managers would win out, particularly in cases like those of Parmalat where their behavior was clearly questionable at best. Culpepper noted that managerial power in the economy was not absolute. In periods when corporate governance is politically salient – particularly following significant scandals – managers’ interests may have little sway due to the high degree of interest shown by the electorate at large. This was clearly the case after the Enron and WorldCom scandals in the United States, which sparked the Sarbanes-Oxley reforms and imposed high compliance costs on public firms. But when corporate governance is reformed in the absence of such intense public scrutiny, manager prerogatives may shape the form of legislation, or its implementation.

Additional commentary questioned whether mergers and acquisitions in coordinated economies are properly considered ‘market transactions.’ If not, perhaps we should not assume that behavior will converge. Jackson suggested that was correct – that there were many different types of markets, with greater or lesser degrees of transparency. For instance, banks in Germany had begun playing a role as matchmaker between buyer and seller in the small- and medium-sized enterprise sector. This was not their traditional role as providers of patient finance, but a different one that drew on many of the same skills and specialized knowledge. This part of the German merger market was still ‘coordinated’ in comparison to markets in the United Kingdom or the United States.

Case studies

After reviewing these major issues in the study of corporate governance, the workshop participants proceeded to discuss the insights that the literature on corporate governance can bring to bear on particular cases.

A European Case: Germany

The relative importance of legal structures and changes, versus the interests of key actors such as managers and shareholders, was discussed in the context of recent trends in corporate governance in Germany. This country has been one of the key sites of research

on corporate governance, and the exemplar of consolidated ownership and influential but ‘patient’ capital.

Nick Ziegler gave a presentation on pension reform in Germany, and argued that in order to understand the significance of new policies one has to look at political contention not just before but also *after* enactment of new legislation. Before the passage of recent pension reforms, German trade unions moved to block the introduction of individual pensions, similar to 401K accounts in the United States, that would be voluntary, fully-funded and tax shielded. Unions opposed these new plans because employers would not have been required to contribute to them. The unions were not successful in their efforts to block these reforms, but they were able to secure what turned out to be important concessions. Post-enactment, the unions were able to exploit a loophole regarding occupational, or firm-level, pensions (Betriebsrente). At the insistence of the unions, legislators had introduced the option of including parity financing – meaning that both employees and employers make contributions – in employment contract negotiations for those with occupational pensions. And now that the reforms are being implemented, the trade unions have been able to ensure that a substantial proportion of the new pension funds are managed in this way.

In discussion of Ziegler’s paper, Cioffi wanted to know why parity financing was so important for the unions. Ziegler pointed out that unions cared a lot about parity financing and the equal representation of employee’s representatives because this approach had been central to many of their achievements in the history of social partnership in Germany. They ensured the possibility of parity financing by including occupational pensions in the pension reform. Furthermore, the fact that such financing would be covered by contract negotiations ensured that the unions would be able to negotiate better pensions on behalf of their members. The influence of the unions in this case presents an argument against the ‘veto points’ approach, where policy enactment is the dependent variable and little attention is paid to subsequent implementation. In Ziegler’s view we have to look at how the actors are changing their own relative power relations in response to changes in the legal landscape – a process that does not stop at

the point of enactment. At this point, Herrigel suggested that the key question is how to disentangle the importance of each reform from the continuing struggle for influence between employers and employees. In this case we would want to know: exactly how is the relative influence of the two main groups affecting the process of implementation? In reply, Ziegler observed that different actors may have different kinds of influence in different venues, be it in shaping follow-up legislation or in influencing the decisions of new investment agencies. Richard Deeg suggested that managers may have played a decisive role, since they may even have *welcomed* the new funded accounts. This would depend, for example, on whether the funds set aside for occupational pensions could be used to guarantee or even fund investments in the firm, as they had (to a limited extent) in the past.

Saskia Freye's presentation focused on German managers, and in particular on continuity and change among the German managerial elite at the country's fifty largest firms since the 1960s. Her argument was that if neo-liberal convergence is happening, it should be reflected in the characteristics of this population, and, by implication, in their preferences. Consistent with the typology depicted by Hall and Soskice's varieties of capitalism, managers in coordinated market economies like Germany tend to have high levels of technical or engineering training. Managers in liberal market economies like that of the United States tend to have the general skills of an MBA. So, the hypothesis of neo-liberal convergence predicts increasing numbers of MBAs among German managers over time. In contrast, Freye's results indicate the stability of the German model, at least until the mid 1980s. During the late 1980s and early 1990s, the percentage of MBAs overtook the proportion of engineers. However, the percentage of engineers rebounded in 2000 and again in 2005, suggesting that the dominance of MBAs was only temporary; Freye noted a parallel with Neil Fligstein's analysis of the backgrounds of managers in the United States. A number of workshop participants suggested that the *norms* of economics and management may now have diffused among managers even though the proportion of manager appointments with MBAs has declined. Another possibility to investigate is whether the content of engineering degrees has itself become more oriented

to management and finance, in place of the traditional focus on the technologies of production.

Freye also found that these managers were still predominantly of German origin, and that a fairly high and stable proportion of them (around 60%) were promoted to managerial positions from within the same firm or conglomerate. The two main changes were trends towards shorter average tenures, and a decline in the employment of people with professional experience outside the private sector. Freye suggested that overall these trends indicate the gradual emergence of a market for management. Gourevitch suggested that it would be even more interesting to place Freye's data in a comparative perspective, with data on the career trajectories of managers in other countries.

An Asian Case: China

Presentations from Jean Oi and Heather Haveman illustrated the the benefits of looking at corporate governance in a broad cross-national perspective. Workshop participants said that such comparisons might clarify the limits of existing theories, but could also establish underlying commonalities where they existed. For example, Jean Oi's presentation argued that corporate restructuring in China was, above all, a political process. Economic costs were not alone a sufficient driver, because the hard constraint in China was set instead by politics. During the 1980s, state actors in China made the decision to "crack the iron rice bowl," the system by which employers provided de facto welfare guarantees for employees, through the institution of lifetime employment and the customary practice of providing schooling, healthcare, and other services on the factory site of state-owned enterprises. Since the state feared the political instability that would be unleashed by reforms displacing many workers from their firm-based welfare system (*danwei*), however, reform efforts proceeded only cautiously. In effect, the Chinese state could not simply fire workers but was also unable to finance full privatization even when private buyers were available. In most cases, therefore state-owned enterprises were only able to privatize if local or central government authorities assumed responsibility for social benefits which the enterprises had previously delivered.

As a number of commentators observed, there are clear parallels between Oi's account and classical works on political economy in the West, particularly Karl Polanyi's *The Great Transformation*. As Peter Lorentzen observed, the question remains open whether the Chinese state is charting a new middle way to development between planning and free enterprise. As Lorentzen put it: how much control does the state have over processes and outcomes? In response, Oi noted that local governments are playing a key role, as a result of which there is considerable variation in outcomes. For instance, in some cases local governments pursue 'good' outcomes for the firms being privatized in a much broader sense than merely trying to maximize short-term revenues; they may be more concerned for the long-term health of the enterprise, and as a result may be prepared to sell the firms cheaply in order to ensure that the new owners are left with sufficient funds to invest. Ziegler suggested it would be interesting to investigate how government agencies obtain the expertise to assess whether such under-valuation would yield longer-term benefits or merely encourage short-term opportunism and asset-stripping.

Gourevitch suggested that it would be fascinating to fit the Chinese case into a broader cross-national comparison of Western- and non-Western instances of privatization. An especially interesting case would be Chile. Pepper Culpepper suggested that in the West we expect organized labor to play a key role in such transitions, hence it would be interesting to know more about its role in China. Culpepper also wanted to know the extent to which the interests of managers and owners converged in the Chinese case. In response, Oi offered a state-centered view of the management of challenges to state power. On the one hand, Oi argued that state governments used limited democratic strategies, such as giving some voice to organized labor, in order to pacify local constituents. On the other hand, weak state agencies like the agency for environmental protection also take recourse to more coercive measures, such as using the courts to ensure the enforcement of laws that have already been passed.

Heather Haveman's paper also discussed ownership reform among Chinese firms. Where Oi offered a big picture of corporate governance reform and focused on the change in the

ownership structure of former state-owned enterprises, Haveman singled out a particular sample, that of large firms. Communist party members responsible for economic development fragmented the state's control over firms by creating four categories of shares and four potential constituencies. State shares in the firm were available to a number of different institutions as long as they were state-owned. Institutional shares were offered to mainland Chinese institutions, both private and state-owned. Individual shares were sold to mainland Chinese investors and foreign shares were sold to foreign investors.

On first glance, the new diversity of shares suggests that the Chinese state is receding from firm ownership, but Haveman showed that non-state companies are not fully independent because the government holds on to 40-45 percent of shares. Like Oi, Haveman stressed that profits are second in priority to politics where state shareholders hold such a large stake. Although firing employees would improve the profitability of these firms, the state's authority is undermined by the likely social costs of layoffs and civic unrest.

Both Oi and Haveman alluded to uncertainty as a major driver of interest group behavior around issues of corporate governance. There is uncertainty regarding the correct path of reform and uncertainty regarding the consequences of reform. However, it was Haveman who theorized ways in which managers act in the face of uncertainty. Haveman applied DiMaggio's theory of institutional isomorphism, which posits that there are three ways for firms to escape uncertainty; through coercion, adopting professional norms and imitating peers. For Haveman, DiMaggio's theory is incomplete because it does not cover individual interests. In order to account for individual interests, she fuses principal-agent theory with DiMaggio's ideas about isomorphic convergence. While one would expect considerable variation in the way private investors put a value on the privatizing firms, Haveman observed remarkably little variation in the prices demanded for stakes in these firms. Haveman argued that privatizers looked to other firms, in particular the first movers, to learn what was seen as the appropriate price. In setting

their own share prices, they tended strongly to emulate their peers rather than to maximize their own revenues.

Lorentzen suggested that initial bargains over the prices of such firms are not the only interesting outcome in this case. Economic theory predicts that after the initial allocation, market forces should push prices towards a truer representation of the value of each enterprise. Hence it would be interesting to see whether that was happening in China. Michael Perling suggested that the ‘puzzling’ isomorphism might be explained if the people overseeing the privatization were trying to find an equitable way to re-distribute resources – which after all had previously been state-owned – rather than trying to maximize revenue in each case. In this case, rather than following leaders in a situation of uncertainty, privatizers might have converged on what was seen as the politically appropriate price.

New developments

Peter Gourevitch concluded the workshop with a series of questions about the evolution of corporate governance in the future, given changes to the world economy. He considered three main points: first, the role of ‘reputational intermediaries’ in the conduct of corporate governance and the policing of transgressions; second, the rise of alternate forms of authoritarian capitalism that bore little relation to the systems from which present theories of corporate governance were derived; and third, the extent to which aspects of corporate governance were connected with other elements of the economy.

On intermediaries, Gourevitch noted the key role of several types of monitoring organizations in solving the collective action problems inherent in corporate governance. Since individuals cannot monitor company finances, they rely on accountants to do so for them. Since most people also cannot monitor corporate credit structures, they rely instead on the rating agencies. And since individuals can rarely dedicate sufficient time to manage retirement accounts or stock portfolios, they pay large retirement funds like

CalPERS or mutual funds like Fidelity to manage such investments for them. Together, these reputational or organizational intermediaries are crucial for the capital markets and major parts of the financial services economy. Yet, as repeated scandals have shown, each type of intermediary has its limitations.

Surprisingly, the research on the politics of corporate governance has not paid much attention to the behavior of these intermediaries. This proves particularly important in the political debates over the reform of pension systems, stock markets, and state-owned enterprises. The role of banks in social security reform was a central issue: who would be granted the privilege of managing the private part of the Social Security trust fund? In Chile, where pension privatization is generally regarded as a success, the financial benefits to privatization have been undermined as intermediaries have demanded a larger share of the gains as compensation for their services.

Similarly, the recent politics of corporate social responsibility (CSR) has raised questions of which NGOs, accounting firms, or banks should be regarded as credible judges of a corporation's social behavior. Unlike the accounting or banking sectors, however, no consistent regulatory code exists against which these judges might assess corporate behaviors. Accordingly, the intermediaries in this case are not mere proxies that help individuals solve a collective monitoring problem, but in fact reputational actors in and of themselves, whose credibility is based both on what they do and how they do it. It seems possible that if concerns of corporate social responsibility continue to grow, this sector will become more institutionalized, providing a site to test and expand upon existing theories.

On the rise of non-democratic market economies, Gourevitch started with the common observation that globalization and rapid development are giving rise to a new group of authoritarian market economies. It was not clear, Gourevitch suggested, that the issues considered at the workshop necessarily matter to authoritarian regimes. If not, then how should ideas derived from the rule of law, transparency, minority shareholder protection, and other features of democratic market economies apply to this new group of actors in

which laws are fungible, transparency limited, minority protections variable, and democracy of any kind imperfect? In such states, there appear to be opposing forces for and against applying lessons learned from the affluent democracies. On the one hand, these newly developed economies are major actors in world markets whose structure is heavily influenced by the developed democracies. On the other, many of these countries command significant sums of capital and labor that allow them some degree of latitude – witness the recent loss of influence by the IMF, demand for whose loans has fallen as prosperity has risen. Thus the increasing heterogeneity of actors in world equity markets is generating a heterogeneity in the forms and functions of corporate governance.

Finally, Gourevitch suggested that many issues of current interest in political economy were closely linked to the problem of corporate governance. To the extent that pension funds, healthcare, and wage structures were tied into the link between corporate governance and firm behavior, corporate governance is not merely a matter of investor politics. Rather, it has important effects on benefits provision and income inequality, and the political fights about them. Thus in Japan, the long-term employment contract and the company pension and healthcare plan were substitutes for state welfare policies. The state, in turn, permitted the large size and monopoly instincts of the *keiretsu* because these characteristics were seen as necessary to the provision of social protections. In this sense, Gourevitch agreed with J. Bradford DeLong's arguments about the modern role of the corporation. He further suggested that the political economy literature needed to consider the location and function of these links more than it had in the past.

Workshop participants took varied positions on the issue of firm-level heterogeneity and its consequences for further research on corporate governance. Contrary to claims that the Varieties of Capitalism framework couldn't explain such firm-level variation, Steve Vogel said the V-of-C framework might in fact illuminate its sources. If the distinguishing factor in coordinated economies turned out to be their skill endowments, then the role of the state in driving one set of skill endowments or another could go a long way towards explaining the different patterns of sectors seen worldwide. By extension, the tasks facing different sectors might require different configurations for corporate

governance. It should be quite possible to bring such lines of analysis down to the level of variation between firms as well as sectors, Vogel asserted, although doing so could introduce an unwieldy level of complexity. At the same time, Join Cioffi said, it was just this kind of granularity or specificity that would allow variation in national corporate governance regimes to help explain comparative economic competitiveness.

Richard Deeg suggested that the emerging variability noted by Gourevitch might finally invalidate the search for a well delimited subset of national models of capitalism. That approach accounted for observed patterns within the rich industrial world. There might be little reason to believe that these models should account for all the variation across a much larger range of industrialized states. Nevertheless, Pepper Culpepper countered, national models remained remarkably durable under the stress of recent worldwide changes. It might, accordingly, be a process of adding to, rather than discarding, the patterns of variation observed to date.

The problem of measuring such heterogeneity was also made clear. Nick Ziegler observed that the norms of most academic disciplines prevent looking at lots of variation simultaneously, even if such complex variation was the best description of what's really happening in the international economy. Gregory Jackson argued for a less institutional and more fine-grained approach to surveying economic actors on the ground. Gary Herrigel agreed, suggesting that it was better to embrace the heterogeneity than to go searching for commonality and then attempt to explain why it didn't exist. But the sheer size of such an undertaking and the variability it was likely to illuminate would militate, in Richard Deeg's view, against the search for a new overarching theory. He thereby concurred with Culpepper on the persistence of national models of capitalism and suggested that this search retained great merit in the medium term.

List of workshop participants and attendees

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Papers Presented at the Workshop

John Cioffi, University of California, Riverside, “Comparative Political Economy of Corporate Governance Reform.”

Pepper Culpepper, Harvard University, “Eppure, non si muove: Legal Change, Institutional Stability, and Italian Corporate Governance”, *West European Politics*, 30(4), 784-802, September 2007.

Richard Deeg, Temple University, “Firm Finance and Internal Capitalist Diversity in Europe.”

J. Bradford DeLong, University of California, Berkeley, “The Corporation as Command Economy.”

Saskia Freye, Max-Planck Institute for Research on Societies, Cologne, “Change in Leadership in Germany Inc.: The German Business Elite in Transition, 1960-2005.”

Peter Gourevitch, University of California, San Diego, “What Do Corporations Owe Citizens,” Springer, forthcoming.

Heather Haveman, Department of Sociology, University of California, Berkeley, “Going (More) Public: Ownership Reform Among Chinese Firms.”

Gary Herrigel, University of Chicago, “Corporate Governance: History without

Historians” in Geoffrey Jones and Jonathan Zeitlin, eds. *Handbook of Business History* (Oxford: Oxford University Press, 2007).

Gregory Jackson, King's College, London, “Varieties of Capitalism, Varieties of Markets: M&A in France, Germany, Japan, the UK, and the USA.”

Jean Oi, Stanford University, “Navigating Political Cross Currents in China's Corporate Restructuring.”

J. Nicholas Ziegler, University of California, Berkeley, “At the Nexus of Social Policy and Capital Markets: Pension Reform and Enterprise Governance in Germany.”