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Institutions and Corporate Governance

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From its inception, the institutional tradition of studying organizations has been informed by themes of control and coordination – themes that fall within the domain of corporate governance, broadly defined as being concerned with the implicit and explicit relationships between the corporation and its constituents, as well as the relationships between these constituent groups (Bradley, Schipani, Sundaram, and Walsh, 1999). With its insights into the nature of authority and control structures, institutional theory is uniquely positioned to provide important contributions to scholarship on corporate governance. However, the reverse is also true: because of its concerns with the control of the corporation, corporate governance presents a particularly attractive field for institutional theory and an opportunity to clarify and refine it.

While questions about corporate control go back to the emergence of the publicly owned corporations as a form of organization (Berle and Means, 1932), the literature on corporate governance presents a somewhat more recent phenomenon, establishing itself as a distinct field of research only in the late 1970s. Since then, traditional scholarship on corporate governance has been largely dominated by a legal-economic view of the firm as a nexus of contracts (e.g. Jensen and Meckling, 1976; Fama and Jensen, 1983; Hart, 1995). This approach has placed the principal-agency problems at the center of most researchers' concerns, and the result has been a rather narrow conception of corporate governance as concerning primarily the relationship between shareholders and managers (e.g. Rubach and Sebora, 1998; Shleifer and Vishny, 1997: 737). The main thrust of this body of research has accordingly been to investigate the optimal contracts between shareholders and managers (Fama and Jensen, 1983; Eisenhardt, 1989), and has resulted in a large body of research that addresses a variety of incentive mechanisms to control the behavior of managers, focusing mostly on compensation, the composition of the board of directors, and the market for corporate control as the three primary control issues (see e.g. Blair, 1995; Shleifer and Vishny 1997; Walsh and Seward, 1990; Zingales, 1998 for reviews of this literature).

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Although the contractarian view clearly emerged as the dominant paradigm of corporate governance research since the 1980s, some recent research has begun to move away from this focus on the effectiveness of individual mechanisms and has started to take a more holistic view of the corporate governance system as a configuration of interdependent elements (e.g. Beatty and Zajac, 1994; Davis and Useem, 2002). Such a view also emphasizes that corporate governance systems themselves are embedded in larger institutional and legal frameworks, and that effective practices are highly contingent on the institutional environment in which corporations and their stakeholders are embedded (e.g. Davis and Useem, 2002). Emerging from the foundational work of Coase (1937), the new institutional economics of North (1990, 2005) and Williamson (1981, 1988) have offered frameworks regarding the role of institutions in corporate governance that are rooted in a boundedly rational actor model of the corporation. For example, North (1990) argues that a national system of corporate governance may be seen as an institutional matrix that provides both the roles to the players and the goals to be pursued by the corporation. Similarly, Williamson (2000) acknowledges the embeddedness of corporate governance arrangements in larger, society-wide systems of institutions.

Given several comprehensive and insightful reviews of the contractarian approach to corporate governance (see e.g. Eggertsson, 1990; Furubotn and Richter, 1997; Menard and Shirley, 2005; but also Fligstein and Choo, 2005; Fligstein, 2001; Davis, 2005), in this chapter I will focus relatively more on the contributions of sociological institutionalism to the study of corporate governance. In doing so, I will examine corporate governance using a socially informed view of actors and corporations as deeply enmeshed in systems of norms and relations that are both culturally and sociopolitically constructed. My goal in this chapter is thus to present an alternative account of how corporate governance may be studied using the tools of sociological institutionalism, to survey how institutional theory has so far contributed to the study of corporate governance, and to examine a number of fruitful areas for further inquiry, such as the study of contrasting national governance systems, governance in emerging economies, and the effect of globalization.

AN INSTITUTIONAL APPROACH TO CORPORATE GOVERNANCE

To accomplish the task of outlining an institutional approach to corporate governance, a few clarifications are in order. The first of these concerns the role of power in institutional accounts. Earlier forms of institutional theory have been criticized for their relative inattention to themes of power and domination (e.g. Perrow, 1985; Clegg, 1989). Since power relations lie at the heart of corporate governance, such criticism is of importance and needs to be addressed. In response to it, I will follow prior work that has viewed institutions as inherently about the role of power (Stinchcombe, 1968: 107), and institutionalization as a process that is innately political, reflecting the relative power and interests of coalitions of actors (DiMaggio, 1988). Such an approach places issues of power and control squarely at the center of its attention, considering governance systems as reflecting underlying cultural narratives or moral orders that define how social relations should be constructed and whose interests have priority (Wuthnow, 1987). These moral orders thus form the foundation of governance systems and are expressed in the ways in which power and influence work. The view presented here furthermore necessarily implies that we need to pay attention to *both* sides of the power relationship, including both obedience to power and resistance to it (e.g. Clegg, 1989). It thus points to the potential of institutional theory to offer a critique of existing power arrangements (Lawrence and Suddaby, 2005). In this sense, I will focus both on the

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enactment and acceptance of institutions as well as on forms of resistance to institutions, particularly in relation to the actual enactment of institutional orders in governance (cf. Davis, 2005).

Second, an institutional view of corporate governance needs to start with a clear understanding of the nature of governance arrangements. As noted earlier, the standard view of corporate governance rooted in the economic and legal traditions places the defense of the shareholders' interests at its center (Shleifer and Vishny, 1997; Tirole, 2001). Its associated scholarship considers governance arrangements as emerging from the distribution of property rights and based on two fundamental assumptions. The first holds that shareholders – as the 'residual risk bearers' of the corporation – are the only stakeholder group that is not compensated by contract. Within financial economics, this view of shareholders alone bearing the risk of corporate failure is so widely spread as to be taken as self-evident (O'Sullivan, 2000). The second assumption is that holding managers accountable only to shareholders will result in the most efficient aggregate social welfare outcome. It follows from this assumption that the best governance system for all stakeholders is to exclude all constituents except shareholders from the governance of the corporation (Hansmann and Kraakman, 2001: 441).

In contrast, an institutional approach to corporate governance suggests that corporate governance arrangements always reflect political processes (Cyert and March, 1963; Davis and Thompson, 1994) and as such do not naturally arise out of an order of property rights. Instead, I believe that governance models are better understood as containing implicit and explicitly normative theories or logics about the distribution of power and the 'natural' order of interests in the corporation. In other words, governance models are articulated systems of meaning that embody the moral order as they explain and justify the proper allocation of power and resources. This view of governance models goes back to the work of Reinhard Bendix, who understood managerial ideologies to be 'all ideas which are espoused by or for those who seek authority in economic enterprises, and which seek to explain and justify that authority' (1956: 2). By emphasizing the symbolic nature and cultural embeddedness of corporate governance models, the view advanced here likewise builds on recent work on the role of institutional logics, defined as 'the axial principles of organization and action based on cultural discourses and material practices prevalent in different institutional or societal sectors' (Thornton, 2004: 2). The logics that underlie corporate governance models thus refer to and emerge from the wider cultural belief and rule systems that structure cognition and guide decision-making (Wuthnow, 1987; Lounsbury, 2007). As such, governance models are similar to conceptions of control (Fligstein, 1990; 2001) in that they refer to local orders that provide actors with cognitive frames to interpret the actions of others as well as their own.

The view of corporate governance models presented here is much more dynamic and culturally constructed than that employed in the contractual tradition. It also differs from the contractual approach by highlighting issues of power and contestation, and particularly resistance to governance models. Rather than being rigid structures, governance models are symbolic orders that require constant tending to be maintained. Such an approach thus also speaks to a common theme in the institutional literature, namely questions of why and how institutional change comes about where existing institutional arrangements become replaced with alternative orders.

There are several reasons why governance models and their underlying normative claims are more fragile and vulnerable to alternative theories than usually assumed. First, as is true for all systems of institutional order, the meaning embodied by governance models is inherently unstable, as the very symbols that are their building blocks tend to be open to different interpretations that may empower different actors. Sewell (1992) refers to one aspect of this as the 'transposability of schemas,'

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suggesting that culturally learned rules and assumptions 'can be applied to a wide and not fully predictable range of cases outside the context in which they are initially learned' (1992: 17). This is particularly true when governance models and practices are applied across institutional contexts. Similarly, existing institutional settlements are built on the remains of previously contending alternatives, many of which remain available as differing models of organizing. As a result, the hegemony of governance models is intrinsically unstable and constantly threatened, either by the memories of prior social orders (Schneiberg, 2006), by alternative versions of what could be (Comaroff and Comaroff, 1991), or by contradictions within the current orders (Clemens, 1997).

Furthermore, existing models have to be passed on, either through reproduction and socialization or through conversion of new members. However, transmission is problematic, because many socialization processes remain far from complete (Zucker, 1977). As a result, social systems in general, and systems of normative claims in particular, tend to suffer from 'social entropy' (Zucker, 1988), with a gradual erosion of the accepted beliefs and assumptions on which the models themselves are based, opening the door for challengers such as the shareholder-oriented model that replaced the traditional managerial model of governance (e.g. Fligstein, 1990; Lazonick and O'Sullivan, 2001; Dore, 2000).

Finally, governance models are vulnerable to technical and economic changes that result in discrepancies between actual experience and explanation offered by the normative narrative embodied in them (e.g. Goodrick, Meindl, and Flood, 1997). Such techno-economic changes may open up performance gaps (Abrahamson, 1996), thereby creating opportunities for challengers to step in and offer alternative explanations and ways of organizing. In this regard, Barley and Kunda (1992) have shown that the ebb and flow of managerial ideologies is related to broad cycles of economic expansion and contraction, leading to alternating waves of rational and normative rhetorics of control. Likewise, many of the current claims about the superiority of the shareholder-oriented model of the corporation point to the performance gaps between the presumably superior model and more traditional, stakeholder-oriented models (e.g. Hansmann and Kraakman, 2001; Bradley et al., 1999).

The view of governance models presented here also speaks to another central concern in institutional theory, namely the relationship between taken-for-grantedness and purposive agency (Colyvas and Powell, 2006). Building on the work of Comaroff and Comaroff (1991), it suggests a continuum of governance practices that ranges from the salient and openly contested to the taken-for-granted and therefore uncontested assumptions about the governance of corporations. Taken-for-grantedness refers to those aspects of the corporate governance world that '... go without saying, because, being axiomatic, they come without saying' (Comaroff and Comaroff, 1991: 23). However, due to the mutability of meaning systems and inherent contradictions, even highly legitimated governance models may become subject to challenges, and it may thus be better to conceptualize the cultural field in which they operate as a 'fluid, often contested, and only partially integrated mosaic of narratives, images, and signifying practices' (Comaroff & Comaroff, 1991: 29). In this field, actors will frequently aim to stake a claim for new and differing governance against contenders, resulting in continuing contest and struggle. Such a view of governance has been advanced by some authors in the accounting literature. For example, Covaleski, Dirsmith, and Michelman (1993) argue that control-systems such as case-mix accounting present unfinished processes infused with power and are open to manipulation by various organizational actors, thus echoing the idea expressed by Thompson (1990) that the symbolic order is fragile and can never be taken for granted; its maintenance is as problematic as its change, making the 'ideological work of repair and renovation' a never-ending project (Scott, 1985: 23).

The view I have advanced here does not imply that governance regimes cannot take on a relatively stable nature. Clearly, the symbolic orders that underlie corporate governance regimes can become reinforced by formalized arrangements such as legal regulations and political sanctions. But while such legal underpinnings can have a stabilizing effect, what emerges eventually is a continuum of governance regimes, ranging from settled periods of relative stability to unsettled periods of challenge and change, with cultural narratives about power and authority either sustaining existing orders or providing the tools for constructing new ones (Swidler, 1986).

So far, I have argued for an institutional approach to corporate governance that takes into account the normative nature of culturally constructed governance models and highlights the role of conflict and resistance in corporate governance. Yet, such governance models are not merely higher-order systems of meaning. Rather, much of the action of institutions lies in their everyday enactment and the ways in which abstract meaning systems become tangible in everyday experience. As suggested by Scott (1985) and Fine & Sandstrom (1993), to understand the working of institutions it is essential to tie them closely to action and everyday practice, and specific governance practices in particular.

A focus on practices is attractive to the study of corporate governance because the normative claims that inform governance models are not always readily transformed into corresponding practices. The overt exercise of power reflecting self-interest is frequently avoided for fear it would mobilize opposition. As a result, powerful actors often move to replace overt power with more formalized and structural control practice (Covaleski et al., 1993). Accordingly, the appropriate focus may frequently be not only overt espousal and diffusion of governance ideologies, but also the practices through which such ideologies are enacted. Particularly formalized, highly institutionalized practices such as financial incentive plans or monitoring arrangement present effective tools for influencing social situations and are 'an adroit substitute for the overt use of power, the very deployment of which might actually signal weakness'(Covaleski et al., 1993: 76; also Pfeffer, 1981). At the same time, agents that are the target of such monitoring and control attempts frequently try to influence the implementation of practices such as incentive plans or financial reporting. This highlights issues of spread, implementation, and manipulation of governance practices, i.e. changing either the reach or meaning of the practice within and for the organization (Davis, 2005). In other words, practice diffusion and implementation frequently present the grounds on which battles between various interest groups are fought, and thus deserve special attention.

THE DIFFUSION OF GOVERNANCE PRACTICES

The diffusion of corporate governance practices presents perhaps the most developed field of applying institutional theory to corporate governance. Much of this research has focused on the antecedents of successful diffusion, focusing specifically on the compatibility of the diffusing practice and the adopting organization. An institutional view of governance practices as implicit theories raises the question of fit between practice and those theories held by adopters, as practices do not diffuse into an institutional vacuum, but rather into a pre-existing moral universe or 'cultural field' (Comaroff and Comaroff, 1991). One of the first works to take this approach was Hirsch's (1986) study of the rhetoric of corporate takeovers, which argued that an early misfit between the understandings surrounding takeovers and the dominant views held by the business community inhibited the spread of this practice. However, a normative framing of the practice in line with the values of American business culture eventually facilitated the diffusion and legitimation of takeovers. Similarly, Davis and Greve (1997) found that the spread of poison pills and

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golden parachutes – two anti-takeover defenses that became popular during the wave of hostile takeovers of the 1980s – followed differing pathways that depended on the normative claims embedded in these practices. Poison pills diffused quickly and widely through shared directorships as their legitimacy was based on the defense of the corporation against outside raiders; a claim that could be readily rationalized by outside directors. In contrast, the diffusion of golden parachutes proceeded much more slowly through regional elite networks, which is commensurate with a practice that was surrounded by greater controversy as it appeared to clearly privilege executives over other constituents. Examining the spread of a shareholder value orientation among German firms, Fiss and Zajac (2004) and Sanders and Tuschke (2007) find evidence that governance practices compatible with the mental models and educational background of top executives are also more likely to be implemented. Similarly, Palmer and Barber (2001) show the importance of elite education for determining diversifying acquisition activity, while Espeland and Hirsch (1990) point to the important role that accounting played in providing the conceptual underpinnings that facilitated and legitimated the U.S. conglomerate mergers of the 1960s. By offering a framework for making sense of the firm as a portfolio of income streams, the rhetoric of accounting accelerated the spread of a variety of practices, culminating in the emergence of the hostile takeover and the market for corporate control. These studies highlight the role of theorization in the diffusion process (Strang and Meyer, 1993), where diffusing practices are framed such as to make them more compatible with existing cognitive and social requirements, an insight that has also been applied to the diffusion and institutionalization of corporate governance codes in the international arena (Enrione, Mazza, and Zerboni, 2006).

Other authors have pointed to the role of mimetic isomorphism in influencing choices of governance mechanisms. For example, Ahmadjian and Robinson (2001), in studying the spread of downsizing among Japanese firms, point to the importance of a 'safety-in-numbers' effect, where growing prominence of a practice facilitated its spread as individual firms were less likely to be noticed or criticized. Similarly, Venkatraman, Loh, and Koh (1994) examine the spread of joint ventures and the multidivisional form, finding that isomorphic pressures to adopt were more prevalent for joint ventures since this practice did not require a drastic rearrangement of the organizational structure. Palmer, Jennings, and Zhou (1993) also point to the importance of mimetic pressures in the spread of the multidivisional form, where prevalence of this governance arrangement increased the likelihood of its adoption by other corporations. Suggesting a somewhat modified version of mimetic pressures, Davis' (1991) study emphasizes the importance of ties to prior adopters in the spread of poison pills as an anti-takeover defense among the largest U.S. corporations during the 1980s, with mimicry operating mainly through direct ties rather than the observation of competitors.

Other studies have argued that more attention needs to be paid to the coercive power of other organizations and legislative bodies in promoting diffusion (e.g. Barron, Dobbin, and Jennings, 1986; Scott, 1987). In an important contribution, Davis and Thompson (1994) suggest that efficiency-oriented governance approaches based on agency theory are frequently inadequate for explaining the politics of corporate control, and particularly the emergence of shareholder activism. Drawing on the literature on resource mobilization, Davis and Thompson develop a social movements perspective that highlights the importance of governance actors' interests, social infrastructure, and mobilization in determining the likelihood for successful collective action within a given political opportunity structure. Similarly drawing on a social movements perspective, Rao and Sivakumar (1999) argue that powerful investor rights activists compelled organizations to adopt boundary-spanning structures that signaled the primacy of shareholder rights.

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The insights of these studies support a 'forced-selection' perspective (Abrahamson, 1991) where powerful organizations impose adoption of practices – be they technically efficient or not – over the resistance of other actors. These insights are also reflected in Oliver's (1991) argument that features of the organization's context, such as the multiplicity of its stakeholders and the organization's dependence on them, are likely to predict adoption or non-adoption of practices. For example, Palmer, Friedland, Jennings, and Powers (1987) and Palmer, Jennings, and Zhou (1993) point to the importance of powerful owners in determining organizational structures, while Palmer et al. (1995) show that the spread of predatory takeovers was consistent with an embeddedness approach that highlights the role of a firm's position in networks as well as the positions of its managers and directors in the firm's ownership structure and the social network of the business elite. In a similar vein, Fiss and Zajac (2004) argue that the spread of a shareholder value orientation among German firms importantly reflected the power and interests of various ownership groups, thus also highlighting the role of coercive influence in the diffusion of governance practices. The insights of these studies thus point to a model of the diffusion process that sees the probability and speed of a diffusing practice as a function of the number, interest, and relative power of agents within a given environment (Marquette, 1981; Fligstein, 1985), thus including both organizations and outside stakeholders into the diffusion model where both the actors involved and their interests tend to be institutionally constructed (Aguilera and Jackson, 2003)

VARIATION IN GOVERNANCE PRACTICES

While institutional theory has contributed considerably to our understanding of how and why governance practices diffuse, less attention has been paid to the diffusing practices themselves. Much of the prior research tends to treat diffusing practices as homogeneous entities that do not vary by context and remain stable over time. However, such homogenizing assumptions seem questionable. If diffusing practices come with explicit and implicit theories attached, then adoption should go along with a considerable amount of interpretive work that aims to integrate these theories into pre-existing organizational frameworks and world views. As Strang and Soule argue, such interpretive work 'selects and transforms the diffusing practice,' and while some practices may be more appropriate for interpretive work than others, 'none come out of this process unmodified' (Strang and Soule, 1998: 277).

Such considerations point our attention to the study of variation in practices, an issue that has emerged as a central concern of institutional theory (e.g. Lounsbury, 2007; Lawrence and Suddaby, 2005). A number of studies have begun to examine how practices are modified, translated, and reinvented to fit local needs (e.g. Boxenbaum and Battilana, 2005; Czarniawska and Joerges, 1996; Djelic, 1998; Fiss and Zajac, 2006; Lounsbury, 2001; Morris and Lancaster, 2005; Sahlin-Andersson and Engwall, 2002). A common theme emerging from these studies is that while there are frequently unifying elements that inform diffusing practices, their actual enactment tends to take a variety of forms. An important reason for such variation lies in the fact that the internal dynamics of organizations may frequently result in differential responses to external institutional pressures (Greenwood and Hinings, 1996). For example, Zbaracki (1998) suggests that implementation of Total Quality Management (TQM) practices resulted in considerable variation as managers appropriated the rhetoric of quality management, with TQM becoming increasingly ambiguous and open to appropriation. Likewise, Lounsbury's (2001) study of staffing practices in college recycling programs indicates that practice variation differed depending on both connections to external social movement organizations and internal features such as size, ownership nature, and social comparison processes relating to

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similar organizations. What emerges is implementation as not only a technical but also a political and cultural process where new practices become appropriated into ongoing exchanges and conflicts. Such a view, where practices are adapted to fit local needs, has also been suggested by more macro-level studies of the international diffusion of the arm's length contracting standard (Eden, Dacin, and Wan, 2001) and corporate governance codes (Aguilera and Cuervo-Cazurra, 2004). As these studies indicate, a focus on variation is central for a fine-grained understanding of corporate governance practices and moves beyond the acceptance of surface conformity to explore the various forms of meaning and transformation associated with specific practices (e.g. Lounsbury, 2001; Zilber, 2006).

GOVERNANCE AND RESISTANCE

The issue of resistance to governance models and practices has formed an important yet somewhat unrecognized undercurrent in the literature on corporate governance. The concept of corporate *governance* itself implies the existence of both governable entities and even more importantly governable persons (Miller and O'Leary, 1987). An important part of corporate governance thus relates to the construction of managers and employees as not only corporate constituents with rights and responsibilities but also entities to be managed with efficiency. The roots of this development can be traced back to Taylor's *Principles of Scientific Management* (1913), which centered around the efficiency of the individual worker and insisted that 'each worker be singled out, to be rewarded or punished on the basis of his or her individual performance' (Miller and O'Leary, 1987: 253). This theme finds its counterpart in contemporary agency theory, which likewise constructs the manager as primarily self-interested, with goals that conflict with those of the principal and greater risk averseness (Jensen and Meckling, 1976; Eisenhardt, 1989). Accordingly, after constructing the manager as an agent to be controlled and monitored, most of agency theory concerns itself with refining the incentive and monitoring mechanisms to achieve optimum efficiency, focusing particularly on individual performance outcomes. As was true for Taylor's scientific management, agency theory thus likewise views the executive as inefficient and in need of being 'enmeshed within a routinely-applicable calculative apparatus' (Miller and O'Leary, 1987: 253). The implications of this process of constructing the nature of the governable person are considerable, as indicated by arguments about the negative effect of agency theory on ethical behavior (Ghoshal, 2005) as well as recent work on the transformation of financial markets in accordance with theoretical models about their nature (MacKenzie, 2006; MacKenzie and Millo, 2003).

While the institutional view of governance advanced here differs considerably from that advanced by agency theory, these agentic models nevertheless highlight the fact that governance has to be accomplished since it will frequently be resisted by those whose compliance is to be achieved. In line with Granovetter's (1985) caution against oversocialized models of actors, these considerations point our attention again to the ways in which institutional processes are frequently far from complete, leaving room for contestation and manipulation, the necessary counterparts to the exercise of power (Clegg, 1989). The knowledgeable and experienced practitioners that inhabit many organizations will frequently attempt to resist the introduction of formal control practices by manipulating the application of such new practices, transforming them into means for advancing their respective interests (Dirsmith, Heian, and Covaleski, 1997).

Acknowledging the impossibility of perfect control, one stream of literature has focused on the role of decoupling as a response to institutional pressures. In its classic formulation, the concept of decoupling referred to a situation where 'structure is disconnected from technical (work) activity, and activity is disconnected from its effects' (Meyer and Rowan, 1978: 79). At the same time, it is this very decoupling that

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maintains the legitimacy of the organization. Meyer and Rowan suggest that close supervision may frequently be counterproductive, since it would reveal a lack of trust in the supervised organizations and would expose the controlling agencies to uncertainties arising at the technical core of these organizations, uncertainties that neither the organizations nor their supervising agencies have the capacity to control. In order to prevent these uncertainties from leaking into the larger governance system and making it ungovernable, controlling agencies thus frequently rely on formal structure as an indicator of legitimacy; surface compliance may suffice where deep control is impractical, or indeed impossible.

Expanding the classic notion of decoupling, a number of recent studies have connected it to work on impression management in developing a symbolic management perspective that emphasizes how organizations, by purposive action, may maintain or increase their legitimacy. In contrast to the work of Meyer and Rowan, legitimacy here is not achieved through a logic of confidence and cooperation, but rather by calculating, manipulative, or even deceptive actions that aim to show compliance towards external observers while concealing nonconformity (Elsbach and Sutton, 1992; Oliver, 1991). Such a perspective has been successfully applied to study a lack of implementation relating to corporate governance practices. For example, Westphal and Zajac (1994) find that symbolic adoption of long term incentive plans for management is frequently decoupled from actual implementation of such plans. This is particularly true in firms where powerful CEOs have the resources to resist board efforts to change their incentive structure. Likewise, Carpenter and Feroz (1992; 2001) examine the adoption of generally accepted accounting principles among U.S. state governments and find that implementation of such accounting standards was primarily driven by the desire to exhibit institutionalized practices to the public and credit markets. At the same time, the authors point to resistance to institutional pressures, such as the state of Delaware's shallow implementation of GAAP based financial statements and the mobilization of cost-benefit rhetoric to defend non-implementation. Similarly, Fiss and Zajac (2006) show that a lack of implementation is frequently accompanied by rhetoric aimed at assuring constituents of compliance with external demands.

However, resistance to institutional demands need not only take the form of incomplete implementation, surface compliance, and impression management. Rather than taking the governance environment as exogenous, corporations can frequently act to actively influence this environment to make it more suitable to their needs. As suggested by Carruthers, 'organizations are not only granted legitimacy; sometimes they go out and get it' (1995: 324). An example of this active construction of the institutional environment is given by Mezias (1990), who shows how large corporations in the U.S. acted to influence their financial reporting requirements. Similarly, Bealing, Dirsmith, and Fogarty (1996) point to second-order effects of institutionalization in governance affairs, where, particularly in a fragmented socio-political environment, organizations do not simply adopt institutionalized structures. Instead these organizations actively participate in building up a framework for social control relevant to their own constituents (such as the accounting profession for the US Securities and Exchange Commission), thereby establishing the legitimacy of the interrelationship of the organization with its constituents. A symbolic perspective on corporate governance thus points our attention to the various ways in which corporations aim to elude institutional demands by hiding noncompliance or aiming to affect the very definition of what constitutes acceptable conduct.

OWNERS, MANAGERS, EMPLOYEES, AND OTHERS

The world of corporate governance is inhabited by a variety of groups with varying

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identities and interests; yet much of the literature has focused on two of these groups, namely managers and owners, and has furthermore tended to focus on them in the context of the publicly traded corporation. The literature in finance tends to assume that owners are fairly homogeneous in their interests, focusing primarily on the maximization of shareholder value (e.g. Bagwell, 1991; for an overview of the literature on ownership, see Kang and Sørensen, 1999). A more institutionally oriented approach points to the idea that both actors and their interests are not merely given but instead constructed through their embeddedness in larger social systems (Aguilera and Jackson, 2003). In such a view, owners are characterized by various interests and identities that translate into differences in governance orientations and models (Fligstein, 1990; Fiss and Zajac, 2004). Accordingly, owners tend to be much less homogeneous in their interests than commonly assumed within the contractual view of the firm. Furthermore, owners may differ in their attitudes towards shareholder value maximization, not only across different ownership groups such as banks, family owners, and other corporations, but their interests may differ even within such groups (e.g. Fiss and Zajac, 2004). Similarly, Aguilera and Jackson (2003) have advanced an actor-centered institutional approach to corporate governance that emphasizes how the interests of the main corporate governance actors are both constructed and represented.

In addition, research drawing on institutional arguments has shown the role of owners in the spread of governance models. In this regard, Ahmadjian and Robbins (2005) point to the importance of ownership in studying the spread of practices associated with U.S. shareholder value capitalism to Japan. Their findings indicate that foreign investors were associated with an increased restructuring of Japanese firms that were less central in the Japanese political economy. Similarly, Fiss and Zajac (2004) study the spread of a shareholder value orientation among German firms in the 1990s and show that the diffusion of this normative model happened along ownership lines where power to adopt a different governance model could be exercised. Several other authors have employed a social movements perspective to examine the origins and effects of shareholder activism (Davis and Thompson, 1994; Proffitt and Spicer, 2006). While these studies present important developments in building an institutional theory of ownership, much remains to be done to further our understanding here.

Another important line of inquiry has focused on understanding who the top managers are, particularly how they are selected, what their educational and functional background is, and what social circles they inhabit. Such considerations are relevant as the background and social embeddedness of top executives is likely to be reflected in the views they hold regarding the nature of the corporation and in whose interest it should be governed (Hirsch, 1986; Espeland and Hirsch, 1990; Fligstein, 1990, 2001). A considerable amount of work has focused on the formation and influence of the business elite in the United States (e.g. Useem 1979, 1980; Domhoff, 1967). This literature has examined both differences and commonalities in values, interests, and identities between managers and shareholders, with particular interest in whether there exists a ruling class with common perceived interests. For example, Useem and Karabel's (1986) study of the relationship between educational and social backgrounds and careers of U.S. managers found that career mobility was enhanced by prestigious educational degrees, pointing to the importance of social capital for reaching the upper strata of management. Likewise, membership in the exclusive social clubs of the elite forms an important source of social cohesion (Useem, 1980) and affects the spread of practices among corporations (e.g. Palmer et al., 1995).

Finally, an extensive stream of research has examined the importance of executives in their role of establishing connections between firms through interlocking directorates.

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This literature has examined the effect of board interlocks regarding a variety of issues ranging from the exercise of corporate control (e.g. Mariolis, 1975; Mintz and Schwartz, 1981) to corporate political action (Mizruchi, 1989, 1992) to social cohesion (e.g. Useem, 1984; for an overview of these literatures, see e.g. Mizruchi, 1996).

Other researchers have employed institutional theory to examine the selection of top executives. Fligstein (1987, 1990) shows how a financial conception of control emerging in the postwar United States and the large-scale merger movement of the 1960s resulted in increasing numbers of CEOs with a background in finance, and firms with such CEOs were in turn more likely to be the targets of takeover attempts (Fligstein & Markowitz, 1993; Davis & Stout, 1992). Finance CEOs were also more likely to adopt the new shareholder value conception of control emerging in the 1980s (Fligstein, 2001; Fiss and Zajac, 2004). Ocasio (1999) has shown the role of both cognitive and political factors in the formal and informal rules governing CEO succession, particularly the choice of insider versus outsider successors. Similarly, Thornton and Ocasio (1999) and Thornton (2004) demonstrate how the institutional logics guiding executive succession in the higher education publishing industry shifted from an editorial to a market logic. Regarding board composition, Luoma and Goodstein (1999) have pointed to the importance of institutional influences on the selection of corporate directors. These studies indicate that the selection of top management is importantly shaped by institutional forces emerging out of organizational and societal processes.

While owners and managers have received greater attention, major constituent group – employees – has been less often examined from an institutional perspective. In this regard, an institutional approach is not different from the corporate governance literature more generally (cf. Blair and Roe, 1999) and the Anglo-Saxon corporate governance literature in particular. Within the literatures on labor representation, mechanisms such as works councils as well as union influence, a number of authors have drawn on institutional arguments (e.g. Aguilera and Jackson, 2003; Gospel and Pendelton, 2004; Streeck and Thelen, 2003). In addition, some authors have employed institutional theory to examine how control of employees is exercised. For example, Barker (1993) shows how value-based normative rules embedded in self-managing teams make for more effective control of workers than more traditional, bureaucratic authority structures, while Oakes, Townley and Cooper (1998) examine the pedagogical role of business plans as language that redirects work and changes the identity of managers and employees. However, given the current dominance of the shareholder-centered system, the role of employees is likely to remain peripheral at least in the Anglo-Saxon governance context, even though themes of hegemony versus resistance to the shareholder-centered governance model the part of employees would warrant more attention.

Finally, some research in the institutional theory tradition has expanded the focus to consider the role of outside constituencies in corporate governance. Several studies in this regard have focused on the role of financial analysts, who occupy a central role as boundary-spanning and evaluating audiences for corporations. For example, Fogarty and Rogers (2005) examine the creation of analyst reports and find that this process largely follows the logic of confidence described by Meyer and Rowan (1977), where strong expectations but little control characterize the production of reports, a process that is furthermore strongly dependent on information controlled by managers. Furthermore, Zuckerman examined the role of analysts as product critics and has shown that a mismatch between the cognitive categories used by securities analysts to affect stock prices and de-diversification activity (Zuckerman, 1999, 2000). These considerations also point to the role of other actors affecting the governance of corporations, such as suppliers, debtors, professional associations, the courts, and of course

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government regulators (Fligstein and Choo, 2005). Some of these have been examined using a comparative perspective on corporate governance, to which I now turn.

THE COMPARATIVE STUDY OF GOVERNANCE SYSTEMS

The institutional approach to corporate governance suggests that national corporate governance systems are importantly affected by cultural differences (Tricker, 1984, 1990). This points to the need to comparatively evaluate the diversity of governance arrangements. Such research on comparative corporate governance has for a long time been primarily the domain of taxonomists, leading to a large body of mostly descriptive research on differences in national corporate governance systems (see e.g. Boyd, Carroll, and Howard, 1996; Bradley et al., 1999; Guillén, 2000 for reviews; see Roe 2003 for a political perspective). The main assumption of this field of research has been that each country's system of corporate governance developed in response to its particular historical, cultural, and technological influences. However, recently a number of scholars have aimed to develop these arguments into more coherent frameworks that allow for a better understanding of the mechanisms that underlie national governance systems, as well as a systematic comparison of national differences in governance arrangements. Two frameworks that have particularly garnered attention in recent years are the Varieties of Capitalism (VoC) approach (e.g. Hall and Soskice, 2001; Thelen, 2004), and the business systems perspective (e.g. Whitley, 1999; Morgan, Whitley, and Moen, 2005). Their arguments are relevant to the embeddedness approach suggested by institutional theory and deserve special attention here.

Building on a configurational approach, a central theme in the VoC approach is the notion that the economic systems of advanced nations are marked by a variable degree of cohesion and complementarity among their respective subsystems. Beginning with a focus on the diversity of modern economies, these authors argue that variation emerges because corporations and other social actors 'develop distinctive strategies and structures to capitalize on the institutions available for market or non-market coordination in the economy' (Hall and Soskice, 2001: 48). For example, comparative research on Japanese business models has suggested that the keiretsu structure of corporate governance presents a competitive advantage for large Japanese firms, since this structure leads to higher rates of innovation, resulting in a competitive advantage (Gerlach, 1992). While these arguments are similar to those advanced by a competitive logic of differentiation, they differ in their emphasis of a systemic perspective that points to institutional complementarities. Building on the work of Aoki (1994), the VoC approach thus views national governance systems as part of a system of interconnected institutions that reinforce each other, creating stability but also resistance to change. In this respect, the VoC approach identifies two ideal types of economies: liberal market economies (such as the United States, Canada, the UK, and Australia) that primarily rely on markets to coordinate their financial and industrial relations systems, and coordinated market economies (such as Germany, Japan, the Netherlands, or the Scandinavian countries) that employ a variety of non-market institutions to coordinate these spheres (Hall and Soskice, 2001). Empirical support for these arguments comes from a variety of case studies on European economies as well as comparative works (e.g. Thelen 2001, 2004; Wood, 2001). Several recent works have applied the VoC framework to the study of corporate governance systems (e.g. Casper, 2001; Vitols 2001; Vitols, Casper, Soskice, and Woolcock, 1997; Ziegler, 2000), suggesting that this

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approach can offer a framework for understanding the connections between corporate governance systems and the larger political economy.

A related approach to the study of economies and governance is advanced by Whitley (1992a, 1992b, 1999) and others, who aim to explain the institutional structuring of business systems. By business systems, these authors generally refer to the 'distinctive patterns of economic organization that vary in their degree and mode of authoritative coordination of economic activities, and in the organization of, and interconnections between, owners, managers, experts, and other employees'(Whitley, 1999: 33). Accordingly, the nature of the relationships between these actors is of central importance when contrasting business systems. For example, business systems may be characterized by inter-firm relations based on arms-length contracting or repeated, cooperative connections (e.g. Dore, 1986). Likewise, the providers of capital may view their investments as resources to be supervised directly or they may delegate this task to trusted agents (e.g. Whitley, 1999). From the combination of these forms of relationships emerges a variety of possible types of economic organization and governance. However, interactions between various forms of relationships limit the feasibility of business systems, and Whitley (1999) identifies six that range from the fragmented via the state-organized to the highly coordinated.

Work building on a business systems perspective offers an intriguing framework for those who aim to study corporate governance through an institutional lens, particularly because its theoretical apparatus is not limited to the study of advanced economies. The business systems approach provides a systematic foundation for examining corporate governance practices, particularly when merged with insights from other theoretical traditions (Tempel and Walgenbach, 2007). For example, Lane (2005) draws on a business systems approach informed by the notion of an institutional logic to examine changes in the German model of corporate governance. Similarly combining a business systems approach with other institutional arguments, Djelic and Quack (2003) and Djelic and Sahlin-Andersson (2006) show how national institutional systems are increasingly nested within transnational, higher-order institutional frames. Such insights are highly relevant for the study of corporate governance, and particularly regarding the potential for convergence in governance systems (Tempel and Walgenbach, 2007). Both the VoC perspective and the business systems approach tend to be focused around ideas of complementarity and consistency. However, rather than exploring how such systems provide coherence to corporate governance, an institutional approach also emphasizes the importance of conflict and inconsistency. Such considerations shift the focus to the importation of practices from one institutional context into another, highlighting issues of enactment and integration, and thus questioning the coherence view of national systems of corporate governance. Consistent with a focus on practices, it would also be useful to shift the level of analysis further down to the firm level to examine diversity even within 'national' systems. Such systems are frequently less than coherent but instead are marked by considerable tensions between different governance models and institutional logics, a process that will likely lead to considerable change (O'Sullivan, 2000). However, this change does not necessarily mean greater convergence in governance system, but rather increasing variety.

EMERGING DIRECTIONS FOR FUTURE RESEARCH

As a field for applying institutional theory, corporate governance is likely to continue expanding, and the institutional approach is

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well poised to provide a coherent framework for the study of governance systems and practices across various levels of analysis. As I have argued here, a culturally and politically informed institutional approach offers a counter weight to the currently dominating contractarian framework for understanding governance arrangements. This is not to say that both approaches cannot inform each other – in fact, some of the most intriguing insights into governance arrangements are likely to come from approaches drawing on several theories and disciplines (Fiss, 2006). In the remaining, I want to sketch out some of the more promising avenues for further research, applying an institutional approach to the corporate governance arena.

In line with my above arguments regarding the role of power and the normative nature of governance models, we need to expand our understanding of how governance models as shared cognitive understandings are propagated, find support, and become rooted across differing institutional contexts. This research project would need to pay attention both to the ways in which governance models spread across national and international arenas and to the processes by which indigenous governance models become uprooted and contested. Prior research in the contractarian literature has pointed towards convergence in international governance systems due to the effects of globalization and the power of financial markets (e.g. Coffee, 1999; Bradley et al., 1999; Hansmann and Kraakman, 2001). In contrast, emerging institutional work has questioned the likelihood of convergence, pointing instead to persistence in national systems alongside convergence processes (e.g. Aguilera and Jackson, 2003; Fiss and Zajac, 2004; Guillén, 2001; Jackson and Moerke, 2005). As argued by Tempel and Walgenbach (2006), further research should look to move beyond the convergence–divergence debate and should begin to disaggregate the processes occurring at various levels of aggregation, such as company, sector/industry, and national level of corporate governance (Hollingsworth, Schmitter, and Streeck, 1994; Casper, 2000).

Future research should also draw further attention to the ways in which governance models hide power relations as they become increasingly taken for granted and take on the mantle of neutrality and inevitability. An important role in this regard lies with events that lift this mantle and provide a glance into the political nature of resource distributions, such as the current wave of corporate scandals that has swept the United States. Governance scandals in particular provide opportunities when the seams come apart, allowing for regimes to be criticized and changed. As such, the study of such scandals, the ways in which they are managed by corporations and regulators, as well as how they are framed and used for mobilization by various interest groups, such as activist investors, are of particular interest to institutional theory and provide fertile ground for future research. Such an approach might eventually offer a more systematic framework of the conditions that lead to relatively strongly institutionalized versus less strongly institutionalized models of corporate governance.

The study of emerging and transition economies presents another promising area for understanding both change and persistence of corporate governance systems and practices (e.g. Allen, 2005; Millar, Eldomiaty, Choi, and Hilton, 2005). How are corporate governance models and practices propagated in such environments and do they take hold or do they remain externally imposed orders that meet with resistance from established interest groups? What is the role of symbolic and surface compliance in this regard? Who are the actors that lead reform efforts and what strategies do they pursue? These are but some of the questions that require answers once we expand the focus of inquiry beyond the currently dominating Anglo-Saxon governance environment, in combination with Germany, Japan, and France, as the economies that have received the most attention from researchers.

Understanding the variety of governance arrangements and the role of employees, banks, family owners, company networks and the state in Asian, South American, or Eastern European countries requires a holistic approach to corporate governance, and the institutional perspective is well positioned to contribute such an approach

Regarding the emerging themes of translation and adaptation in institutional theory, we still know rather little about the process by which the re-organization of a model is accomplished, pointing to the need for a deeper understanding of how governance practices combine and recombine. For example, in what ways are governance systems holistic and interconnected or modular in nature, and which features of these systems may be safely removed or added without disturbing overall operation of the governance system? Do hybridization and loose coupling present viable trajectories (e.g. Deeg, 2005; Lane, 2005)? To analyze such issues, it may be useful to examine other fields that have studied processes of syncretism and recombination, such as anthropology (e.g. Stewart, 1999). By drawing on insights developed there, we may be able to gain a much deeper understanding of the cultural embeddedness of corporate governance practices.

Finally, while researchers working within the institutional tradition have made some forays into the role of constituents and their identities, these still present fruitful fields for further inquiry. For the most part, institutional theory has not focused directly on the role of ownership and control (cf. Fligstein and Freeland, 1995). In this regard, family owners present a particularly interesting case, as such owners are a group where conflicts over economic versus social logics of investment are particularly likely to be prevalent. Likewise, while some research has focused on the relationship between ownership and national institutional context, there is still a need for more cross-national studies of strategy and corporate governance, and particularly studies that would go beyond national differences to examine the underlying dimensions along which institutional contexts vary. Furthermore, there is an opportunity for institutional theory to bring all the corporate constituents back into the focus of governance research. Rather than focusing merely on executives and directors, such work could take seriously how governance is constructed at the intersection of various influence spheres, including those of inside and outside constituents and the attempts of corporate actors to actively manage such constituent groups. Such an emphasis on the active construction and propagation of governance accounts would enable institutional approaches to bring both relevant and critically-reflective insight to the current and future corporate governance debates.

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