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THEORETICAL AND COMPARATIVE PERSPECTIVES ON CORPORATE ORGANIZATION

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ABSTRACT

The study of corporate governance has expanded both its theoretical and its empirical scope. We define governance broadly to include the social organization of firms and their relations to their suppliers, customers, competitors, and states. This review examines both economic and sociological theories to evaluate their efficacy at accounting for the comparative data on firms. Our review of the comparative literature suggests that there is no evidence of convergence across societies toward a single form of governance, and that this is mainly a function of three factors: the timing of entry into industrialization and the institutionalization of that process, the role of states in regulating property rights and rules of cooperation and competition between firms, and the social organization of national elites. The theories that function best are those that consider political, institutional, and evolutionary factors as causal. This is a cautious conclusion as many of the theories have not been evaluated because of the difficulty in producing comparative measures.

INTRODUCTION

Recent work has brought issues of corporate governance to the forefront of organization theory (Williamson 1975, 1985; Fama & Jensen 1983 a,b; Flig-

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stein 1990; Campbell & Lindberg 1990). We define corporate governance broadly to include the social organization of firms and their relation to their environments including their relation to states. There is now widespread agreement across a number of disciplines that the viability of the industrial enterprise is intimately linked to issues of governance. Despite this accord, however, significant theoretical differences still exist over how to explain variations in governance structures. Economic accounts have focused on efficiency considerations, while work in sociology has tended to emphasize social, political, and cultural factors.

All of these approaches implicitly or explicitly conceptualize corporate governance as a problem of managing interdependence. To ensure continued growth and profitability, owners and managers must make sure that organizational processes are performed smoothly and predictably. Yet each entails interdependence between different actors within the corporation and between the corporation and the larger social world of which it is a part. Those seeking to govern the firm must gain control over the firm's internal and external environments in order to manage and stabilize these interdependencies.

The problem of internal control focuses primarily on issues of hierarchy and motivation. The basic condition of interdependence creates what economists call the principal-agent problem (Fama 1980). Actors responsible for the firm's performance do not carry out production and implement policies by themselves but are dependent on others to do so. They must therefore find some means of motivating or inducing those actors to perform such tasks in consummate rather than perfunctory fashion. The literature on organizations typically identifies three different types of internal control problems: the relationship between management and workers; the separation of ownership and control (Berle & Means 1965); and the division of labor between different levels of management (Chandler 1962, 1990; Freeland 1994).

Issues of external control involve an even wider range of interdependencies, including interactions with competitors, suppliers, capital markets, and the state. It is generally assumed that corporate management must ensure stable, predictable relationships with each of these sets of actors in order to achieve profitability and growth. Relations with competitors, for example, center around explicit or implicit understandings about how business is to be carried out and the form competition will take (White 1981). In transacting with suppliers, management must ensure that quality is adequate, delivery is timely, and prices stable. Relations with the state are even more complex. Because the state defines and regulates the conditions that make transactions possible, including the limits of contract and property rights, it holds the power to legitimize various concrete institutional arrangements.

Few theories of governance attempt to examine all of the interdependencies between the firm and its environments. Instead, they tend to argue that one set of

interdependencies, be it agency costs, transaction costs, population density, power, information, trust, or institutional legitimacy is critical to organizational survival. It is this focus on different interdependencies as causal mechanisms that has led to competing frameworks to explain corporate governance structures.

Not surprisingly, approaches that focus on different causal mechanisms reach divergent conclusions about the modern corporation. Efficiency analysts, for instance, often contend that as firms face similar constraints in worldwide markets, a convergence of organizational forms is likely to occur (see, for instance, Jensen 1989). Others see governance structures as politically and culturally unique entities arising out of historically specific circumstances and conditions (Hamilton & Biggart 1988, Fligstein 1990).

In this review, we seek to assess the adequacy of existing explanations that purport to account for variations in corporate governance arrangements across societies. We are particularly interested in the extent to which existing theories can explain three types of corporate issues: the structure of property rights, the nature of competitive and cooperative arrangements across firms, and the strategies that firms use for growth and expansion, particularly with regard to vertical integration and diversification. We review economic and sociological accounts of corporate governance, showing that the two literatures posit different types of causal mechanisms to account for variations in organizational form. Drawing on recent comparative work that focuses on industrial organization across a number of societies, we then review the existing empirical literature. We conclude with a discussion of the implications of these findings for future research.

Two caveats are in order. First, most of our discussion focuses on institutions that figure prominently in economic theory and are less the focus in sociology. This means that the economic theories will seem more concerned with the issues reviewed here than are the sociological ones, although the sociological theories tend to have broader objects as their focus of explanation. We think this helps focus the comparative discussion, but we also recognize that it limits our ability to discuss a wide range of issues. Second, much of what is discussed concerns the largest corporations. This is because most of what is known and theorized is limited in this way. We accept this limit and suggest that our conclusions may be limited to the largest firms.

ECONOMIC THEORIES AND MECHANISMS

Neoclassical theory paid little attention to issues of corporate governance. It conceptualized the firm as a production function possessing perfect information and operating in competitive product markets. In this theory, entrepreneurs would be forced to deploy their capital in an efficient manner or go out of business, and the study of the firm was a case of "applied price theory" (Stigler

1968). From this perspective, the growth of oligopolies, strategies involving product diversification, and the vertical integration of production processes were all seen as mechanisms that created barriers to entry or undermined price competition (Caves 1980).

Nowhere was the identification of the modern corporation with inefficiency clearer than in Berle & Means's (1965) thesis concerning the separation of ownership and control. In the 1950s, managerial economics began to develop formal models of how the separation of ownership and control affected the organization of the firm (Baumol 1959, Marris 1964). This literature argued that managers would pursue growth in sales or assets over profits in order to increase their own salaries or status (Marris 1964). Although the empirical work did not turn up a lot of positive evidence for this perspective (for a review, see Caves 1980), this literature reinforced the neoclassical view that the firm reflected inefficiencies in the price mechanism.

While the "new" institutional economics is a heterogeneous phenomenon, its adherents commonly share two critiques of neoclassical theory. First, such approaches contend that the firm is the dominant form of organization in capitalism, and that economics is incomplete if it cannot account for its emergence. Second, and even more important, the new institutional economics contends that firms would not be ubiquitous if they did not help create efficient outcomes. In this literature, modern property rights, the separation of ownership and control, and the building of organizational hierarchies are all seen as mechanisms that generate efficiency.

One source of the new institutional economics was the work of Coase (1937), who argued that firms emerged because there were "transaction costs" involved in entering markets, negotiating for goods and services, and enforcing contracts. Coase suggested that if the cost of carrying out a transaction in the market was higher than the cost of carrying out the same transaction within the firm, firms would internalize the transaction in order to lower costs. In this scenario, firms emerge and grow precisely when they are more efficient than the market.

The second major forerunner of new economic theories of the firm was the work of the Carnegie School (Simon 1957, March & Simon 1958). Herbert Simon laid the basis for this approach by modifying the neoclassical assumption that economic decisions were made by perfectly rational actors possessing relatively complete information about the situation in which they acted. Focusing on the fact that humans have limited information processing capabilities and that information is often imperfect or unavailable, he argued that economic actors suffered cognitive and informational constraints that made it impossible to achieve optimal decisions. Instead, actors had general goals in mind and would search for whatever solution they could find that more or less attained these goals, a process he referred to as "satisficing."

Organizational structure was shaped by attempts to reduce the effects of these cognitive and informational constraints (Simon 1957, March & Simon 1958). By breaking corporate goals down into their constituent elements and assigning them to different subunits within the firm, managers reduced the amount of information necessary to monitor organizational performance, thereby relieving cognitive strain and minimizing the chance of information overload for a given unit. This process also provided actors in the subunits with clear cognitive outcomes to attain, thus aligning individual behavior with the overall goals of the organization (Simon 1960). In addition, subunits developed "standard operating procedures" that further simplified cognitive processing by allowing for the easy reproduction of organizational competencies. Organizations that recognized the limits of human cognition and the role of information in organizational life were more efficient and able to survive.

The transaction cost economics (TCE) of Oliver Williamson (1975, 1981, 1985) focuses on the cost of devising, monitoring, and carrying out economic transactions between or within firms, arguing that governance structures—"the explicit or implicit contractual framework within which a transaction is located (markets, firms, and mixed modes)"—are shaped by such costs (1981, p. 1544). Like Simon, Williamson assumes that economic actors are boundedly rational, and he further asserts that at least some actors will behave opportunistically, engaging in "self-interest seeking with guile" (1975, p. 26). Imperfect information raises the cost of contracting by making it more difficult to predict future outcomes. Opportunism makes it necessary to monitor transactions for malfeasance, further raising the cost of governance.

TCE argues that under certain conditions of high asset specificity, market transactions become subject to higher levels of opportunism and bounded rationality, making them more costly to govern. Asset specificity refers to a situation in which resources necessary to carry out a transaction involve "durable transaction-specific investments" that cannot be used for another purpose without significant financial loss (Williamson & Ouchi 1981, p. 352). Once asset-specific investments have been made, neither buyer nor seller can turn to the market as a viable alternative, and it becomes particularly important to safeguard transactions involving asset specificity against the (costly) hazards of opportunism.

In Williamson's view, it is the job of the firm (or more generally, of governance structures) to economize on transaction costs. The firm's system of authority relations is crucial in this regard (Williamson 1988, 1991), for when transactions are internalized within a firm, opportunism can be reduced through the exercise of fiat. TCE uses the same general framework to explain vertical integration, the creation of the multidivisional form and other hierarchies, the emergence of conglomerates, and the separation of ownership and control in large firms (1975, 1985). Recently, Williamson has tried to explain

more complex forms of contracting such as strategic alliances, networks, and cross-ownership patterns that appear in corporations across the world, arguing that such forms of contracting economize on transaction costs where there is genuine interdependence between organizations but not enough to merit full-scale merger (Williamson 1991).

Agency theory views all social relations in economic interaction as reducible to a set of contracts between principals and agents. Principals are individuals who select agents to do their bidding in some matter. The key problem is aligning the interests of the agent such that they do not act against the interests of the principal. This requires writing a contract (sometimes explicitly, sometimes implicitly) that provides safeguards for both the principal and the agent. Such contracts must provide principals with a way to monitor agents, and they must create incentives for each side to carry out its part of the bargain (Jensen & Meckling 1974).

In agency theory, the firm is seen as a fictitious entity created by a "nexus of contracts" of the principal-agent variety. In this respect the firm is no different than the market: it "has no power of fiat, no authority, no disciplinary action any different in the slightest degree from ordinary market contracting between two people" (Alchian & Demsetz 1972:119). Instead, the firm is a system of property rights that defines a set of principal-agent relations and divides up claims to assets and residual cash flow (Fama & Jensen 1983a,b). The principal, an owner, hires employees to do part of the work. They are paid a wage and in exchange usually, though not always, relinquish claims on the profits. The contract to which they agree contains specifications of their duties, their rewards, and the rights of the principal to monitor their performance.

Agency theory argues that different divisions of property rights—the joint stock company, partnerships, sole proprietorships, nonprofit organizations—arise because these forms of organization are efficient under specific conditions. Basically, depending on the severity of agency costs (i.e. the costs of structuring, bonding, and monitoring a set of contracts among agents with conflicting interests), an alternative division of property rights makes sense (Fama & Jensen 1983b). For example, the joint stock corporation under management control is likely to thrive when the cost of setting up the firm is prohibitively high, the type of knowledge necessary to manage the firm is specialized, there are large economies of scale, and there are persons willing to supply capital on the hope of obtaining residual claims that are already discounted for agency costs (Fama & Jensen 1983a). Under these circumstances, the classic separation of ownership and control occurs. But according to agency theory, this arrangement does not lead to inefficiency. Instead, ownership and management interests are aligned through three mechanisms. First, managerial pay is linked to firm performance; second, boards of directors monitor managerial action; third, the market for corporate control effectively

sanctions managers who misuse financial assets, even if boards of directors have been co-opted. In this account, the firm is efficient, even if product markets are not. Versions of this perspective have been used extensively in a wide variety of applications including finance economics (Ross 1977, Myers 1984, Fama 1980, Jensen & Meckling 1974).

Neo-institutionalist accounts usually retain the assumption that observed markets are either in or approaching some form of equilibrium. A more radical perspective on this issue is taken by what we label "neo-evolutionary" theory in economics. Brian Arthur (1988, 1989) argues that economic institutions may have random starts. Thus, history and accident will play some role in the origins of economic modes of organizing. At these originating moments, there may be several ways to organize production, none of which have any obvious advantages. Arthur has argued that during the dynamic processes whereby markets are built, one or another form of organization may have some slight advantage. Over time, institutions grow up around a certain organization, and they tend to reinforce that organization's advantage.

Arthur terms this process a "lock-in." The process by which this lock-in occurs is a set of tiny, discrete steps that over time institutionally embed a given set of arrangements. Once in place, they become difficult to dislodge. Economic processes are thus dynamic up to a point, but once a lock-in occurs around a particular form of organization, markets become stable and less dynamic. Market processes that evolve in this fashion are termed "path dependent." Arthur has studied a number of processes with this model including the introduction of new technology, the location of urban agglomerations, and the creation of technological centers such as Silicon Valley in California and Route 128 in Boston (1988, 1989).

His model helps explain why the entry into modernity has such a profound effect on the structure of a national economy. The historical entry into industrialization is characterized by the simultaneous formation of a large number of institutional arrangements. Once these arrangements are in place, they form institutional conditions that help organize how new organizations and industries will emerge. This approach implies that property rights may be organized in a number of different ways, but once organized, they will tend to be stable and provide institutional structure to new industries that emerge.

A different view of economic dynamics comes from Nelson & Winter (1982). They argue that markets are continuously dynamic and never reach equilibrium points. This means that firms are constantly being confronted by unstable market conditions. In response, firms attempt to find ways of reproducing themselves over time. They do so by creating competencies that embed organizational procedures. The standard operating procedures of a firm both produce products and also serve to monitor problems. They provide feedback to decision makers about changing conditions internal or external to the firm.

In this elegant way, Nelson & Winter are able to combine March & Simon's view of organizations with a dynamic view of market processes. Firms that do not develop such competencies go out of business, while firms that do can prosper for relatively long periods of time. However, market processes can occasionally overwhelm even the most stable firms. This perspective does not explain which competencies will emerge from the formation of markets. However, it does suggest that once they emerge, they tend toward reproduction precisely because they have reliably led to reproduction in the past. Nelson & Winter provide another argument for why one might expect distinct organizational styles across markets and societies. A set of arrangements, once in place, will resist transformation because the owners and managers of firms will stick to procedures that have brought them success in the past.

SOCIOLOGICAL THEORIES OF CONTROL

Sociological approaches to the firm can be seen as a progression away from efficiency principles and toward a more diffuse set of political and cultural explanations, although this is by no means universally the case. In this section, we consider four general sociological approaches that are relevant to comparisons of corporate organization: resource dependence (Burt 1983, Pfeffer & Salancik 1978, Gerlach 1992), network approaches that focus on governance arrangements to increase organizational competitiveness (Powell & Smith-Doerr 1994, Piore & Sabel 1984, Powell & Brantley 1992, Saxenian 1994), political approaches (Campbell & Lindberg 1990, Fligstein 1990, Hamilton & Biggart, 1988, Mintz & Schwartz 1985, Mizruchi & Stearns 1988, Westney 1987), and institutional accounts (DiMaggio & Powell 1983, 1991; Meyer & Rowan 1977; Scott & Meyer 1994).

Sociologists tend to shy away from making claims that an organizational form is efficient in a neoclassical sense. Instead, organizational theory assumes only that organizational forms are effective, i.e. that they promote the survival of the organization. The "effectiveness" assumption suggests that while these approaches use very different rhetoric to describe their objects, there turns out to be a surprising degree of congruence on the important sociological mechanisms that structure organizational life. Power within and across firms, states, resource dependence, and the construction of institutions are the basic elements of sociological theorizing about the firm.

The strategic contingencies perspective on organizations dominated sociological accounts in the 1960s and early 1970s (Thompson 1967, Lawrence & Lorsch 1967). This approach drew heavily on the work of Herbert Simon and the Carnegie School, and it retained much of the economic focus on markets and rational adaptation to market conditions. Strategic contingencies accounts held that managers and owners of firms were constantly surveying their envi-

ronments, interpreting "strategic contingencies" that would affect the chances of corporate survival. Having perceived such contingencies, they would alter the firm's internal strategies and structures in order to adapt to environmental conditions. The basic model was that rational actors could perceive the shifting tides of their external worlds and would have the power to act to preserve their organizations.

Much of the sociological work on organizations since the mid-1970s has been a response to the rational adaptation approach embedded in the strategic contingencies model. The criticisms go in several directions. Many scholars have argued that the strategic contingencies model focuses too heavily on rational adaptation. They retain the belief that environments are powerful determinants of organizational life chances, but they contend that neither the identification of environmental shifts nor subsequent organizational changes are as easy as strategic contingency theory suggests (Hannan & Freeman 1977, 1984; Pfeffer & Salanacik 1978; Meyer & Rowan 1977). A second group of researchers argues that environments are themselves social and political constructions and that the processes by which they are created are themselves an object of study (Fligstein 1990; DiMaggio 1985, 1989; Pfeffer 1981; Orru et al 1991:361).

Scholars concerned with environments have continued to focus on organizational survival as a response to environmental change. Most of these views rely implicitly or explicitly on some form of resource dependence perspective. There are two sorts of views of resource dependence, one that focuses on the management of dependence and the other that argues that environmental dependence is the key to survival.

The former variant of this theory argues that actors' power within the organization depends on their ability to control and solve internal and external resource dependencies (Pfeffer & Salancik 1978). This ability can derive from actors' positions within the firm, their specialized knowledge, or their links to the outside world. If there is a shift in resource dependencies, there is the potential for a shift in the balance of power. Thus powerful actors will resist change in an attempt to protect their positions, while less powerful actors will attempt to introduce only those changes that increase their power (Fligstein 1985, 1987).

Burt has used such resource dependence arguments to model network connections between firms and industrial sectors in the US economy. His key point is that the network links between key suppliers and customers affect their profitability (1983). If there are a large number of suppliers and few customers, then the advantage will shift to the customer. If the opposite situation occurs, the advantage will be with the supplier. Such asymmetries should in theory produce higher than average profits for the firm with resource advantages. They might also make the firm with resource disadvantages unstable. Burt has

argued that using boards of directors as connectors between suppliers and customers is one way to manage and index these types of resource dependence. Other analysts have used a similar approach in examining networks of connections between owners, managers, and banks, arguing that the patterns of interaction among these actors shape the possibilities for firm behavior (Mizruchi & Schwartz 1988, Mintz & Schwartz 1985, Mizruchi & Stearns 1988).

A second branch of resource dependence theory has retained a greater emphasis on market selection and efficiency principles. This approach posits that the market selection occurs at the population level, where organizations survive due to their ability to function under given environmental conditions (Hannan & Freeman 1977, 1984). Once organizational forms appropriate to a given environment have been selected, structural inertia sets in, making further change difficult. In such accounts, resource dependencies are often so severe as to affect the survival odds of a given organization. Ecological analysis that focuses exclusively on selection processes is an extreme form of environmental determinism that has resource dependence at its core.

Other network approaches have been developed which stress how cooperation between competitors and suppliers can lead to positive outcomes for firms (Powell 1990). Implicitly, most of these approaches adopt a kind of strategic contingencies view of how networks are responses to organizational environments. These approaches posit a set of rather heterogeneous mechanisms which focus on how qualities of the environment make network forms of organization attractive (see Powell & Smith-Doerr for a review). Networks based in regions such as Silicon Valley utilize flexible specialization and are based on norms of reciprocity (Saxenian, 1994). The networks here are effective because firms can easily gain access to goods and services they might need to compete in a rapidly changing market environment.

In industries, such as biotechnology, where innovation and learning are critical, there exists a common technological community, which works best by a constant exchange of ideas and persons (Powell & Brantley 1992). Business groups, such as the Japanese *kerietsu*, appear to be authority structures that coordinate firm activities based on common business ownership (Gerlach 1992). Finally, strategic alliances and joint ventures are formed for common gain between firms (Piore & Sabel 1984). Most relevant for the review here, is the idea that firm competition and cooperation can be structured very differently depending on the nature of the environment.

Critiques of resource dependence approaches have noted that there is an element of social construction involved in what constitutes resource dependence. Pfeffer (1981) has made a compelling case that while there are certainly situations where resource dependence is pivotal for organizational life chances, it is also the fact that actors must interpret their interdependencies and have

the power to act. In murky social worlds, perceiving interdependencies is not always a straightforward task. Moreover, even if this occurs, actors must be able to impose their interpretation of the strategic contingency at stake on others. Once it is acknowledged that this is the case, it becomes apparent that perceptions of interdependence may be as important as interdependencies themselves.

Political theories of the firm pursue the notion that resource dependence is socially constructed, thus supplementing the focus on technical environments with a focus on institutional environments. Fligstein has termed this a political-cultural approach (Fligstein 1990, Fligstein & Brantley 1992). He argues that the basic problem facing organizational actors is to create a stable world so that the organization can continue to exist. This necessitates the construction of an organizational field in which actors come to recognize and take into account their mutual interdependence. Fligstein argues that these understandings are reached through political processes. Generally, the largest groups develop a collective way to control the organizational field, and they impose it on the smaller groups. There are two problems involved in creating a stable organizational field: finding a set of understandings that allow a political accommodation in the field, and the legitimation of those understandings by a government. Fligstein (1990: Ch. 1) calls such a set of understandings a conception of control.

From this perspective, states are implicated in all features of organizational life. The organizations and institutions of the state make and administer the rules governing economic interaction in a given geographic area, and they are prepared to enforce those rules, in the last instance through force. The state's claim to set the rules for economic interaction is social in origin, and as such it is contestable. The process by which these rules are set up, transformed, and enforced is therefore an inherently political process. It follows from this that the local politics and existing practices of nations will have profound effects on the form, content, and enforcement rules in organizational fields (for a similar approach, see Dobbin 1994). The formation of organizational fields will depend on the politics in the field and the relation between the field and the state.

A similar approach is outlined by Campbell & Lindberg (1990), who argue that the state shapes the institutional organization of the economy mainly through the manipulation of property rights. It does so in response to pressures from economic actors, but also as a result of political choices made by actors in the state. Campbell & Lindberg define governance structures as "combinations of specific organizational forms, including markets, corporate hierarchies, associations, and networks (e.g. interlocking directorates, long-term subcontracting agreements, bilateral and multilateral joint ventures, pools, cartels)" (1990:3), while they see property rights as "the rules that determine the con-

ditions of ownership and control over the means of production" (1988:2). Their basic assertion is that state actors manipulate property rights to help ratify or select certain governance structures. Using evidence from seven major US industries, they argue that the American state has actually had a very powerful role in the American economy by approving or disapproving of varying arrangements (Campbell et al 1991).

Institutional theories (DiMaggio & Powell 1983, DiMaggio 1989, Meyer & Rowan 1977, Scott & Meyer 1994, Zucker 1977, 1987, 1988) complete the conceptual transition away from technical environments, focusing almost exclusively on "the socially constructed normative worlds in which organizations exist" (Orru et al 1991:361). As firms interact with each other and with their environments, formal or informal rules emerge to govern interaction, and organizational fields are formed. Once these fields become institutionalized, however, they take on an independent status that has a powerful normative effect on subsequent interaction. Once socially defined institutional environments are in place, changes in organizational form are driven more by considerations of legitimacy than by concern for rational adaptation or efficiency.

The recent Scott & Meyer volume (1994) contains a set of interesting empirical studies that illustrate these points. Two sorts of processes are illustrated in these studies. First, the construction of meanings and the role of organized groups such as firms and states is usefully elucidated. Second, much of the work concerns the diffusion of shared meanings. Once institutions are invented, they spread, often with remarkable speed, across settings.

Institutional theory has not directly focused on the questions of ownership and control, firm cooperation and competition, and firm strategy and structure. It would suggest, however, that once a set of institutions around these issues were in place, they would be very difficult to dislodge. Further, new organizational innovations would tend to spread to organizational fields that were close together, while more distal fields would be late adopters. Institutional theory would tend to support other theoretical views that unique institutions might evolve across societies and that they would create stable patterns of difference impervious to market interactions.

COMPARATIVE CASES

In this section we examine how firms and economic transactions are organized across a number of societies in order to assess how well various theories of corporate organization can account for these differences. While we attempt to focus on evidence concerning the organization of property rights, competitive and cooperative arrangements, and firm strategies of vertical integration and diversification, there are several problems involved in reviewing the comparative literature. First, the evidence that is available is often selective rather

than comprehensive, since analysts have tended to look at variables that reflect their own perspective and have not tried to partition variance among a number of perspectives. In trying to get a coherent view of what we know about any national capitalism, one is left with a selective review that focuses on the variables that theorists have sought out. Second, most of the work on comparative organizations has been done in advanced industrial societies. We know quite a bit about business organization in the US, Western Europe, and Japan, but we know less about the other countries of Asia and Eastern Europe, and much less about the rest of the world. This review considers the United States, Japan, Germany, France, and more briefly, Taiwan, and Korea. This huge set of comparisons are done relatively superficially, primarily to illustrate the value of the theories.

It is useful to put the conclusions up front. Despite all of the discussion of globalization of the world economy and the so-called multinationalization of corporations, different societies continue to have distinctive organizational arrangements. These arrangements are primarily the function of three factors: the unique history of each society's entry into industrialization and its subsequent institutional development, the unique form of state intervention into economies in terms of property rights and rules of competition and cooperation, and the social organization of elites (i.e. whether families, managers, or states who own or exert control over corporations). The theories that appear to capture these dynamics most adequately are neo-evolutionary perspectives in economics and political-institutional approaches in sociology.

Resource dependence theory plausibly accounts for some of what is observed. Firm alliances, networks, family ownership patterns, and interlocking directorates are phenomena that appear to differing degrees across industries and societies. One could posit that these different arrangements reflect unique resource dependencies, but the evidence has not been gathered to prove that and the assertion might be tautological. There is little support for agency theory as an explanation for variation across societies. While agency theory would predict that property rights would converge around a single model, many societies with similar types of agency problems have very different property rights arrangements. It is possible to construct transaction cost arguments for the differences across societies, but the evidence, like that for resource dependence, is difficult to assemble (see Aoki 1988 for an attempt to do so in the case of Japan).

We begin with a consideration of the US case. Agency theory and its employment by finance economists have shaped the way we talk about the corporation, and the large American industrial corporation is discussed today primarily in financial terms. For financial economics, the assets, debts, and free cash flow relative to the numbers of shares of stock and the current stock market evaluation of each share together sum up all that is important to know

about any given firm. Managers and owners of firms have come to view their organizations in the same way (Useem 1993). Operating divisions are bought and sold based on their short-term financial performance. Workers are fired to improve next quarter's profits, and those who are left are supposed to carry the burden by increasing their productivity.

How did this conception of the firm arise and come to dominate corporate organization in the United States? A resource dependence perspective would predict that powerful actors controlling critical resources constructed this conception of the firm for their own benefit. A huge amount of intellectual energy has gone into ascertaining the relationship between who owns corporations and who controls them (Kotz 1978, Larner 1971, Herman 1980, Mintz & Schwartz 1985). An equal amount of energy has gone into mapping the connections between banks, insurance companies, and cross-ownership patterns in American corporations, mainly through the use of interlocking directorships (for example, Mizruchi & Schwartz 1988). While there appears to be a fair amount of interlocking, it is unstable (Mizruchi 1982, Palmer 1983) and its effects have been inconsistent across studies (Burt 1983; for a review, see Fligstein & Brantley 1992). It is hard to argue that the finance conception of the firm originated in these patterns of relations.

Another possible origin of the financial conception of control is the dominance of financial markets. While financial markets and investment houses (particularly, JP Morgan) played a key role in the turn-of-the-century merger movement in the United States (Mizruchi 1982), there is little systematic evidence that these financial institutions, particularly investment bankers and institutional investors (defined as pension funds, insurance companies, or mutual funds), played active roles in the shaping of corporate strategies and structures from 1905 until 1980 (Fligstein 1990, Fligstein & Brantley 1992). This was primarily because US antitrust laws—in particular the Clayton Act, but also the Glass-Steagall Act—made interlocks between competing industrial firms illegal and bank ownership of firms problematic. US firms were not allowed to exhibit the financial linkages and ownership patterns that emerged in Europe and Asia. Instead, the proximate causes of the behavior of large American industrial corporations are better viewed in the context of the organizational fields in which they found themselves.

There were two conditions that produced the finance conception of control in the postwar era. First, large firms in the postwar era were already fairly diversified. The problem of internally controlling a large number of products opened an opportunity for executives who could claim to evaluate the profit potential of each product. To make the large, diversified corporation manageable, finance executives reduced the information problem to a measurement of the rate of return earned by each product line. Second, the federal government was strictly enforcing the antitrust laws in the early postwar era and had

passed an antimerger law that made it difficult to merge with direct competitors or suppliers. This encouraged firms to diversify in order to grow. The financial executives who could evaluate profit potential for product lines outside of a firm's area of expertise were invaluable in such efforts (Fligstein 1990: Ch. 6).

The factor that solidified the finance conception of control was the challenge to firms in established organizational fields that came from corporate invaders. The men who pioneered the acquisitive conglomerates showed how financial machinations involving debt could be used to produce rapid growth with little investment of capital. All of the financial forms of reorganization including mergers, divestitures, leveraged buyouts, the accumulation of debt, and stock repurchasing were invented or perfected in this period. The 1960s witnessed a large-scale merger movement in which many of the largest corporations substantially increased their size and diversification. Managers and owners of industrial corporations who were not active participants in the 1960s merger movement were likely to become targets from other industrial corporations in that movement (Palmer et al 1995). As a result of this, finance executives increasingly became CEOs, and the finance conception of the corporation invaded most of the organizational fields of the largest American corporations (Fligstein 1987).

The finance conception of control that emerged in the 1960s was further solidified by the merger movement of the 1980s. Friedman (1985) has argued that the proximate cause of the 1980s merger movement was the state of the balance sheets of American corporations around 1980. The 1970s were an era of high inflation, high interest rates, and a poor stock market. By 1980, many firms found themselves with undervalued assets on their books—assets that had risen in value because of inflation and relatively low stock prices.

Another factor behind the merger movement of the 1980s was state intervention that created changes in the regulatory environment. The Reagan administration weakened antitrust laws in the 1980s by lifting many existing restrictions, giving the green light to all types of mergers, including vertical, horizontal, and conglomerate forms. At the same time, they substantially reduced corporate taxes, thereby providing capital for the merger movement. These actions, when combined with the finance conception of control that had arisen in the 1960s and the undervalued corporate assets of the 1970s, led to an explosion of merger activity.

Although the mergers of the 1980s were sometimes implemented by management, they helped to strengthen the power of financial markets over the industrial organization. Firms with a finance-oriented CEO were more likely to engage in financial reorganization; conversely, firms without a finance CEO were more likely to become merger targets (Fligstein & Markowitz 1993, Davis & Stout 1992). Nonetheless, institutional investors and investment bankers

played key roles, strengthening the role of financial markets. They recognized that firms had undervalued assets that could be sold off for huge profits or leveraged for new asset purchases; they created the "junk bond" market which provided a market to borrow huge sums of other people's money to engage in obtaining assets; and they used the finance conception of control to force managers to reorganize firms financially or risk becoming victims of the market for corporate control (Davis & Stout 1992, Davis & Thompson 1994). As a result, the 1980s witnessed an increase in shareholder activism (Useem 1993), particularly among large, institutional shareholders (Baums et al 1994: Part 2).

The growth of financial control does not appear to have had a significant impact on corporate strategies regarding competition in product markets. While there is some evidence that research and development expenses are pared when large mergers occur (Graves 1988), there is no systematic evidence that so-called active financial intervention by institutional investors or investment bankers changes strategies in any important way (although there is evidence that the number of products produced by the largest firms decreased in the 1980s—Davis et al 1994). The strongest predictors of such behavior continue to be the primary markets in which firms operate and the strategies and structures of those whom they perceive to be their main competitors (Fligstein & Brantley 1992). American firms tend to be large, diversified, and run by financial criteria.

This is not surprising. An institutional investor in the semiconductor industry, for example, would not try to dictate how frequently managers produced a new generation of computer chips. To protect their investment, they would have to know that the industry basically has short product cycles (2–4 years). Opposing a new generation of computer chips would make their investment worthless. There is, however, an important caveat. The principal actors in financial markets have forced managers of large industrial corporations to increasingly emphasize short-term profits. It remains to be seen how this will affect corporate strategies in the future.

The conception of finance control that has arisen in the United States has not emerged in many other advanced capitalist countries (with perhaps the exception of Great Britain), in large part because of state and elite resistance. For example, the European Union has decided to allow member states to continue to monitor mergers and decide if a given merger is in the interest of the member state. There will be no European market for corporate control in the Single Market (European Community 1985).

State-firm relations around western Europe remain remarkably stable. The French government continues to control a large number of large French firms (Annastassopoulos et al 1987) in spite of some recent privatizations. The basic French industrial policy has attempted to create "national champions" who

could compete on world markets (Dyas & Thanheiser 1976). These champions were supposed to be large enough to attain economies of scale. The French government controls investment in these firms and the direction of capital toward those firms (Jenny & Weber 1980). Indeed, the government has induced mergers in given industries as part of its industrial policy.

French industrial policy has not wavered throughout the 1980s. Indeed, large French firms took advantage of the American and British markets for corporate control to purchase stakes in large firms in both of those countries. Because French industrial policy focused on creating firms that were supposed to attain economies of scale, large French firms tend to be vertically integrated, relatively large, and undiversified in their products (Dyas & Thanheiser 1976, Green 1986). Government intervention into financial markets and government ownership of firms has meant that alliance capitalism does not exist. Government intervention has also been an impediment to a market for corporate control.

German firms have less direct federal intervention. However, the German Lander (the equivalent of states in the United States) continue to have substantial ownership stakes in important industrial firms. They use these stakes to affect investment patterns of local firms in order to preserve their industrial base (Stokman et al 1985). Historically, cartels were legal in Germany. This led to cooperative behavior among German producers (Dyas & Thanheiser 1976, Kocka 1980). Today, while cartels are illegal, German antitrust law allows firms in the same industry to cooperate when their products are intended for export. German firms thus have less incentive to merge to control competition and a great deal of incentive to cooperate.

The largest German firms are conglomerates, usually centered around a bank (Lane 1989). These can resemble the *keiretsu* structure of Japanese firms. Stock is held closely by families and banks, and investment is usually directed from banks (Kocka 1980, Stokman et al 1985). There are very few assets for sale in Germany in the stock market, and those markets are relatively unimportant. The core of the German economy, the so-called *Mittlestandt,* are relatively small firms that specialize in a small set of products (Cable et al 1980). These firms, typically with sales in the range of $80–$100 million, are generally family owned and controlled. They are often passed down the generations. These firms concentrate on upscale production markets for industrial goods. As a result of close holding of ownership and a lack of incentives to control competition through mergers, German firms are less integrated, smaller, and less diversified than their American counterparts.

The Japanese case has been widely studied (Ableggen & Stalk 1985, Aoki 1988, Gerlach 1992, Hadley 1970, Kono 1984, Whitley 1992, Lincoln et al 1992). The general conclusion is that the core of the Japanese industrial economy is organized into enterprise groups. Most of these groups existed

before the Second World War as family-owned federations of firms called *zaibatsu.* After the War, they were reorganized into looser groups that are called *keiretsu* (Yoshino 1967). The stock ownership patterns are such that each firm owns a small part of the stock of the other firms (Lincoln et al 1992). The group is usually in a large number of industries, and at the core of the group is often a bank. Very few shares of the firm trade on open equity markets. Since investment is internally generated, it is usually oriented to long-run gains and holding market share (for a review of this literature, see Gerlach 1992: Ch. 3).

The Japanese government has also played an active role in investment patterns in the economy, at least historically (Westney 1987, Johnson 1982). The Japanese government directed the original entry into industrialization during the Meiji Restoration. They explicitly borrowed western models of institutions in order to move rapidly into industrial development (Westney 1987). During the postwar era, the Ministry of International Trade and Industry promoted Japanese industry in a variety of ways. Firms were encouraged to enter export markets, and credit was allocated to projects that would produce goods for export (Johnson 1982). The *keiretsu* structure was reinforced and used to support export activity.

There has been much discussion about whether or not the Japanese stock market will be effective in breaking up these arrangements. After nearly a decade of such discussion, one can only observe that the *keiretsu* structure remains in place. There is no market for corporate control in Japan, and there is not likely to be one. Gerlach (1992) shows that historical patterns of trading, credit, and ownership were stable in the *keiretsu* during the late 1980s.

Taiwan and South Korea exhibit alternative structures (Hamilton & Biggart 1988, Whitley 1990). In Taiwan, large industrial firms are family owned and controlled. Most firms are relatively small. When firms start to get larger, families usually set up new firms to produce related products. Funding for these new firms comes from the earnings of the old firms. Control remains firmly in the hands of families, and the equity markets play little role in the generation of new firms and capital (Hamilton & Kao 1990). The Taiwanese government has also played very little role in the allocation of capital. The rapid development of that economy has been done primarily by private hands without the intervention of either financial markets or government. Taiwanese firms do not tend to be large, vertically integrated, or diversified. The connections between firms mainly revolve around extensive kinship networks. Taiwanese business is the purest case of small-scale firms that are family controlled and densely networked.

The core of the Korean economy is dominated by a set of large conglomerate corporations. The Korean word *chaebol* is a direct translation of the Japanese

word *keiretsu* (Hamilton & Biggart 1988). The *chaebol* differ from the *keiretsu* in two principal ways. Unlike the *keiretsu,* the *chaebol* are highly diversified family-owned firms. They are very highly integrated, and ownership and investment is centrally directed (Whitley 1990).

The Korean government also plays a large and active role in the investment patterns of the *chaebol.* This dates throughout the postwar era and is a direct result of the Korean War. Indeed, government control is stronger in Korea than in any of the emerging capitalist countries in Asia. As a result, private financial markets play almost no role in the growth of the economy (Hamilton & Biggart 1988, Whitley 1992). As already suggested, Korean firms are large, integrated, and diversified, yet under the control of a small number of families with strong ties to government.

CONCLUSIONS

There is no evidence that the world is converging on a single form of state–finance sector–industrial corporation relations. Families, managers, and states alternate in their domination of ownership in various societies. There is also little evidence that relations between firms are converging toward markets, hierarchies, networks, or strategic alliances as the dominant form of governance; stable situations with different configurations abound across various societies. Large firms in different societies also differ in their product mix and integration. Finally, the types and degree of state involvement in markets varies widely within and across regions. The total effect is still one of national capitalism.

Available evidence suggests that there will be no world market for corporate control. Property rights and governance structures are under the control of nation-states and local elites. As long as states claim sovereignty, they are unlikely to undermine their control over their economies in this way. Moreover, their local elites also have a great deal to lose from current arrangements, and they will oppose actions that would force conformity to someone else's standards. Even our scant review of state–firm–financial sector relations shows that while American, Japanese, and some European corporations are dominated by managers, the core of much of the rest of the world's economy is controlled by families (see Hamilton & Kao 1990 for Taiwan, Evans 1979 for Brazil, Leff 1978 for a review of other third world countries including Mexico).

While the American industrial structure is firmly in the grasp of the finance conception of control, the rest of the world has steadfastly resisted importing such a notion of governance for the reasons just outlined. National economies have distinct institutional arrangements that outline the relation between in-

vestment, ownership, control, and economic growth. While they are interested in world trade, they are set up to preserve their national systems of property rights and governance structures.

These results present several interesting theoretical and empirical agendas. Theoretically, there has been a tendency for competing explanations of governance to be posed in oppositional terms. Organizational form is thus understood as a matter of, for example, efficiency versus legitimacy. Our review of the literature suggests that the relationship between causal mechanisms is more complicated. Economic approaches, for instance, have implicitly assumed that social structure will change to create efficiency when exchange is carried out across societal boundaries. Our review suggests that different societies define property rights and the rules of competition and cooperation in different ways. These unique specifications of the noncontractual elements of contract lead to different types of interdependencies and different ways of managing or resolving those problems. Efficiency is socially constructed rather than market constructed (Fligstein 1990: Ch. 9), and there may be many ways to organize "efficiently".

Yet this should not be taken to mean that "everything is legitimacy" or that "everything is power." Although socially constructed, market forces continue to pose important constraints on organizations. A focus on institutional environments and states should not be used to supplant an analysis of technical environments. Rather, the point should be to investigate the ways in which social and economic imperatives reinforce and contradict one another (Orru et al 1991). The most fruitful approaches thus far have been those that emphasize the ways in which history and social relations shape both institutional and economic relations.

Unfortunately, these theories have tended to be weak analytically. So, for instance, we have lots of evidence about the existence of multiple organizational forms, but few theories about the reasons for the existence of the variability. It is thus important that economic sociology continues to develop testable theories that explore the relationship between technical and institutional factors (for an important attempt to begin to classify business groups, see Granovetter 1994).

Finally, our review highlights the fact that theories of organization have rarely been tested across societies. Most have arisen to explain a specific aspect of governance, and they have focused on a narrow range of cases. This is most often a function of the academic division of labor. Scholars interested in a particular society are often not particularly knowledgeable about other societies. Moreover, empirical work usually focuses only on the variables identified by a particular theoretical approach. Consequently, it is difficult to assemble a balanced view of organizations across a number of societies, and it is difficult to state conclusions with certainty. It is thus important that organization theory

begin to carry out more systematic comparative analyses across different societies.

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