HOW NATIONAL CORPORATE GOVERNANCE SYSTEMS AFFECT GLOBAL INTEGRATION

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Abstract

Multinational companies (MNCs) vary in both their use of global strategy and in the systems of corporate governance in which they operate. In this paper, we develop a theoretical framework and set of propositions to show that differences in national corporate governance systems will influence the behavior of corporate actors, which in turn explains the ability of MNCs to achieve global integration. In particular, we conceptualize our comparative model for MNCs by drawing on an actor-centered institutional theory perspective, focusing on five key governance actors: employees, shareholders, boards of directors, top management teams, and governments, to predict MNC’s ability to achieve global integration in terms of global strategy and organization. We show that despite increasing convergence pressures, nationally embedded institutional characteristics continue to shape the globalization strategies of multinational companies.
Multinational companies (MNCs) vary in their globalization modes (Ghoshal & Westney, 1992; Yip, 2001). Historically, companies engaged internationally by adopting an export-based strategy and mode of organization—they globalized primarily by exporting from domestic production. Some MNCs take a multinational or “multilocal” approach—each international subsidiary operates most, if not all, of the value chain, and has considerable autonomy, while the home market becomes just another country and the head office becomes primarily a holding company. Other MNCs adopt a “pure” global strategy—this extends the export-based model by actively seeking to participate in most international markets, and removing the primacy of the domestic market; the key is to maximize strategic position and profits on a global basis. More recently, MNCs tend to pursue a “network” global mode—in this form, MNCs break up the value chain and locate individual activities in as few locations as possible. No part of the organization, whether headquarter or subsidiary is self-sufficient, instead, headquarters and subsidiaries work together in a global network.

While these four modes of globalization are stylized they do capture the most common ones. In reality companies may implement combinations of these modes or intermediate ones such as regional variants (Rugman, 2000; Rugman & Verbeke, 2004; Schlie & Yip, 2000). Furthermore, most companies now seem to be heading toward the network global mode as that provides the best balance between global and local needs (Bartlett & Ghoshal’s (1989) “transnational”; Nohria & Ghoshal’s (1997) “differentiated network”; and Doz, Santos, & Williamson’s (2001) “meta-national”). The key benefits of this mode include: the ability to conduct value adding activities in the most cost effective or advantageous locations, to acquire and transfer knowledge globally, and to leverage competitive advantages on a global basis.
There are systematic variations in globalization modes across industries and by company within industries (Porter, 1986; Yip, 1992). But we also observe systematic differences in modes across countries (Bartlett & Ghoshal, 1989: 45-48). Japanese companies mostly started with the export mode, and only later moved to the pure global mode. European MNCs typified the multilocal mode, now moving toward the network global mode, and with variations among different European countries (Yip, Johansson & Roos, 1997). Many American MNCs initially internationalized using the export mode, then transitioned to a multilocal mode but much less developed than for most European MNCs, and moved fairly quickly into the pure global mode, and are now also heading toward the network global mode.

Various explanations exist for these inter-country differences. Business historians have attributed it to the paths to industrialization (Gerschenkron, 1962; Chandler, Amatori, & Hikino, 1997). Early industrializers, such as Britain, gave a head start to their companies thanks to the accumulation of capital and resources while late-comers, such as Germany and Spain, relied on alternative industrialization mechanisms to catch-up, such as state intervention or inward foreign investment. Another explanation lies in the history of the colonial empires—benefiting companies in Britain and the Netherlands. Government legislation has also shaped the development of MNCs through various mechanisms such as tax incentives, as in the case of Ireland, or bank regulations. For instance, the development of large Italian companies was severely discouraged by Italian financial regulation in the early 1930s favoring pyramidal groups and small family-owned firms (Barca, 1994). There also exists an extensive literature on national competitiveness that seeks to explain the relative advantages of companies from different national bases (Porter, 1990). Japan’s lateness to international business meant that Japanese
companies had to skip the multilocal phase of building extensive international subsidiaries (Yip, 1996).

In this paper we propose that variations in national corporate governance (CG) systems provide an alternative explanation for existing differences in globalization modes. While we recognize the historical and situational reasons why MNCs from different countries may have started with particular globalization modes, we seek to explain why differences in national corporate governance systems might constrain MNCs from converging on the optimal mode of the network global. We do not argue that the network global mode is the best for all time, simply that it is widely believed to be the best mode for current conditions. Our real interest is in shedding light on the CG constraints that prevent MNCs from moving to the current optimal mode of globalization.

We seek to fill the gap between the global strategy and the corporate governance literatures and to examine how the characteristics of different corporate actors will influence firms’ global strategies. While researchers have reached broad consensus regarding the different modes of globalization and we also understand fairly well the institutional domains shaping corporate governance systems, we still know little about how the characteristics of different stakeholders within corporate governance systems will affect global strategy. Thus, we aim to provide a comprehensive framework for analyzing the interdependent roles of corporate stakeholders in global strategy decision-making.

Specifically, this theoretical exercise contributes in at least three ways to the existing international business literature. First, most studies of international expansion are concerned with the mode of foreign entry and the destination of geographic diversification. Two schools of thought, within the field of International Business, have investigated extensively these questions:
the internalization model of foreign expansion as represented by the *eclectic paradigm* (Buckley & Casson, 1976; Dunning, 1981; Rugman, 1981), and the internationalization model of the Scandinavian school focusing on cultural proximity (Barkema, Bell & Pennings, 1996; Johansson & Vahlne, 1977, 1990). However, with the exception of Murtha & Lenway (1994) and Wan & Hoskisson (2003), little attention has been paid to the home country environment. Our theoretical framework explains how home country corporate governance relates to global integration.

Second, to our knowledge there is no study looking at the corporate governance dimensions of the multinational firm and its internationalization patterns. The closest are an analysis of the corporate governance of the multinational *vis à vis* its subsidiaries (Fukao, 1995) and a study showing that one dimension of corporate governance, MNC’s financial structure, influences degree of internationalization (Hassel, Höpner, Kurdelbusch, Rehder, & Zugehör, 2003).

Third, a recent edited book by Morgan, Kristensen & Whitley (2001), on the organization of the MNC across institutional and national divides, demonstrates the “relatively limited institutionalization of worldwide governance regimes” (p. 32). This lack of an institutionalized global governance system indicates that we need to analyze the country level institutional constraints and capabilities that corporate stakeholders have developed in their home business systems in order to understand their choice of globalization modes.

This paper has five parts. In the first we provide a rationale for the conflict of interest between corporate governance and globalization. Conflict is at the core of our theoretical model. We also discuss corporate governance, focusing particularly on existing research that uncovers the relationship between the nature of corporate stakeholders and national institutions. In the
second part, we develop the theoretical model depicting the relationship between corporate governance and global integration. Specifically, we identify how different dimensions of country-level corporate governance actors, such as their interests and their mechanisms of influence, might effect global integration. We then introduce, in the third part, a review of the global integration model on which we draw. In the fourth part, we develop propositions about the relationship between corporate governance actors’ interests and mechanisms (of global strategy influence) to global integration modes. We conclude with a discussion of the potential theoretical and practical implications of our work, as well as directions for future research.

**POTENTIAL CONFLICT BETWEEN CORPORATE GOVERNANCE AND GLOBALIZATION**

Globalization clearly involves strategic changes of the highest order, affecting fundamental aspects of strategy and organization. Changes in globalization modes require major transformations within the multinational firm (Westney & Zaheer, 2001). For example, Philips undertook an over ten year period to change from its long time multilocal mode to a network global mode (Aguilar & Yoshino, 1988; Jeelof, 1989; Bartlett & Ghoshal, 1989). Corporate governance systems set the overall context in which firm decisions are made as well as determining the rights and capabilities of corporate stakeholders in allocating resources and returns (O’Sullivan, 2000; Shleifer & Vishny, 1998). So it should be expected that CG systems will affect globalization modes, in general. Even more critically, the CG system that most affects a MNC is that of its headquarters (HQ) country and the most relevant CG actors are generally based in the HQ country. In contrast, most globalization decisions involve rebalancing or even sacrificing HQ country interests for the sake of global optimization. *Hence, there is significant*
potential for conflict between the interests of CG actors in the HQ country and the MNC needs of
global strategy. It is this potential conflict that we seek to explore.

We define corporate governance as the rights and capabilities that corporate stakeholders
have to allocate corporate resources and returns among the different stakeholders. The literature
on comparative corporate governance provides a good starting point to examine how a wide
range of actors affects corporate decisions, especially in the context of different national
institutions (Aguilera & Jackson, 2003; Gospel & Pendleton, 2003; La Porta, Lopez-de-Silanes,
Shleifer, & Vishny, 1988; Whitley, 1992; Whittington & Mayer, 2000). National institutions,
such as the type of legal system or national training schemes, will determine corporate
governance issues such as shareholder rights or firm employee involvement respectively.

Firm stakeholders’ decision-making is constrained and enabled by the broader
institutional context in which stakeholders and corporate governance practices are embedded. An
extensive literature within organization studies shows that firms’ competences and capabilities
are fundamentally dependent on their institutional context (Hall & Soskice, 2001; Whitley,
1999). The key is that, even within MNCs, “choices by managers and the options taken
themselves reflect underlying patterns of firm strategy and structure derived from their
institutional origins” as pointed out by Morgan & Whitley (2003: 612). This research literature
has explored how the institutional context affects the characteristics of a broad number of firm
stakeholders such as labor or government. It often fails, however, to take the next step and to
systematically analyze how these actors might determine firm decision-making such as global
strategy or social responsibility.

Our proposed theoretical framework goes beyond institutional analysis, as we enable
corporate stakeholders to influence the institutional system by being part of the national
corporate governance model. Our approach is inspired by *actor-centered institutionalism* in stressing the interplay of institutions and firm-level actors (Aguilera & Jackson, 2003; Aoki, 2001; Scharpf, 1997). We view institutions as influencing the range but not determining outcomes within organizations. Institutions shape the social and political processes of how actors’ interests are defined (“socially constructed”), aggregated and represented with respect to the firm. However, institutions are themselves the result of strategic interactions in different domains generating shared beliefs that, in turn, impact those interactions in a self-sustaining manner.

**MODEL OF CORPORATE GOVERNANCE AND GLOBAL INTEGRATION**

Our model of CG effects on global integration comprises: CG actors, interests of the CG actors, mechanisms available to CG actors to influence firm strategy, and their effects on global integration. Figure 1 summarizes our theoretical model and shows direct paths from National Institutional Context to the first three CG related constructs. Figure 1 also shows direct effects from Firm Context to the three CG constructs. We recognize that within countries there will be between-firm variance in the strength of CG actors as well as their interests and mechanisms to influence global integration. For example, the presence and strength of unions vary across firms within countries. As these firm effects are, by definition, idiosyncratic, we will not discuss them in this paper. We include the firm context for completeness and to indicate that any empirical test of our model would have to include measures of the firm context.

[Figure 1. Model of Corporate Governance Effects on Global Integration]

**Global Integration**

An extensive literature has developed in the last fifteen or so years on the topic of globalization and global strategy. The term “globalization” has been applied, especially, to
countries, industries, cultures, and companies. At the firm level, a loose definition of globalization would be simply the geographic spread of investments, selling, and other activities such as production. A stronger form of globalization involves implementing global strategies and global organizations that result in global integration (the management of multinational operations on a globally integrated rather than “multilocal” basis; Yip, 1992:1).

The globalization literature assumes that the purpose of global integration is to maximize shareholder value. Furthermore, it explicitly espouses the ignoring of national preferences on the part of employees, managers and other stakeholders. Indeed, the essence of global integration is to make decisions on a global basis and to maximize profits on a global basis.\(^1\) While we recognize that stakeholders might have value maximizing interests, in the context of global integration decision-making we study how their possible preferences for favoring their home country (particularly in terms of preserving jobs, knowledge, and control) might influence firm globalization. In other words, our working assumption is that stakeholders’ interests are mostly aligned with their home country interests, and that these interests will be exercised through different mechanisms either constraining or enabling firm globalization.

From a corporate governance point of view, the most powerful stakeholders nearly always reside in the country of the MNC’s headquarters (HQ), as that is where most governance rules apply. Hence, this paper examines how the role of HQ country stakeholders, expressed through national corporate governance systems, can constrain global integration choices. Our units of analysis are the governance actors and their institutional environment in the country of the HQ. Even though we acknowledge that, often, global integration decisions might be taken in

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\(^1\) There is some debate as to whether global strategy actually enhances shareholder value. But that is not relevant to our argument here, as long as managers intend for it to do so. In any case, there is some evidence linking global strategy to superior performance: Bartlett & Ghoshal (1989); Kotabe & Omura (1989); Morrison (1990); Johansson & Yip (1994); Conn & Yip (1997); and Devinney, Midgley, & Venaik (2000).
coordination with MNCs’ subsidiaries, we develop our model around the constraints and incentives of HQ country actors

**Corporate Governance Actors**

Global strategy frameworks identify a partial set of corporate stakeholders but do not address their interactive role in corporate governance and provide only limited recognition of the moderating effects of national institutions. Admittedly, studies of the globalization of *countries* place heavy emphasis on institutions (Porter, 1990; Rugman, 2000). However, studies of the globalization of *companies* have not. Institutional theory would argue that historical legacies and national institutional complementarities explain the behavior of country MNCs. Similarly, institutions create a balance and constraint on corporate stakeholders’ choice of strategies and organizational forms that will likely shape MNC global integration.

It is worth noting that the earliest framework on global strategy (Porter, 1986) ignored the role of any actors and focused on the determinism of industry characteristics. In fact, the vast majority of the global strategy literature (e.g., Porter, 1986; Prahalad & Doz, 1987; Bartlett & Ghoshal, 1989; Ohmae, 1990; Yip, 1992; Nitin & Ghoshal, 1997; Doz, Santos, & Williamson, 2001; Govindarajan & Gupta, 2001) assumes that multinational corporation (MNC) managers, especially *top, headquarters managers*, are the key decision-making *actors* while recognizing some constraints from other stakeholders such as *governments* and *labor unions*. A related literature on global human resource management (e.g., Joynt, Marton, & Morton, 1999) also highlights the decision-making role of managers, although often those below top management. Similarly, the literature on the role of subsidiaries in global strategy also centers on the role of managers either at the subsidiary level (e.g., Birkinshaw & Morrison, 1995; Birkinshaw, 1997) or in the transfer of knowledge between headquarter and subsidiary managers (Kostova & Roth,
A somewhat earlier literature stream shed light on the role of national governments versus that of firms in globalization (Stopford & Strange, 1991).

In this paper we look beyond MNCs’ top managers by conceptualizing the MNC as a social organization with multiple stakeholders who have, in turn, multiple interests. Following this logic, we propose that when studying global strategy decisions, we must go beyond managers per se and also examine other firm stakeholders encompassing the MNC. Our stakeholder view of the MNC allows for a more complex view of MNC global strategy decision-making and adds to our knowledge of global strategy.

We identify five critical stakeholder actors who have the most effect on the firm’s decision making, including globalization. Employees have various legislated, statutory, contractual or negotiated rights (such as employment conditions) that affect globalization decisions. Furthermore, employees implement strategies and live in and operate the organization structures and management processes central to globalization. The top management team (TMT) is charged with day-to-day responsibility for strategy and operations. The board of directors is the ultimate governing body of an organization and as such it must approve all firm strategies including globalization strategies. Shareholders exercise their voice through their right of electing the board of directors but they can also exit the firm by selling their shares if they do not agree with globalization strategies (or other) decisions. Finally, governments set and enforce the overall rules of national corporate governance; they design specific norms about international business, such as trade policies; and they can selectively intervene in individual globalization decisions, such as closing down a factory in the HQ country and moving operations abroad, or subsidizing a given firm due to its national strategic relevance. Obvious omissions in our
selected stakeholder actors are customers, suppliers and competitors but, being external to the firm, they have much less involvement with firms’ corporate governance.

**Actors’ Interests and Mechanisms**

One of our underlying assumptions is that stakeholders typically have interests other than the maximization of shareholder value (Dore, 2000; Kelly, Kelly, & Gamble, 1997; Lazonik & Sullivan, 2000; Donaldson & Preston, 1995), in contrast to the assumptions of the most neoclassical form of Western capitalism (Friedman, 1962) and of agency theory (Jensen & Meckling, 1976). This view of multiple interests fits the notion of the MNC as a political system with many different actors involved (Westney & Zaheer, 2001). Hence, each CG actor embodies a particular set of *interests* that, by definition, will be more or less fulfilled depending on the strength of the *mechanisms* available to pursue those interests. The national institutional contexts determine the strength of the actors’ mechanism to influence global integration. Below, we discuss the actors’ interests and mechanisms as summarized in Table 1.

[Table 1. Corporate Governance Actors’ Interests and Mechanisms]

Our conceptualization of the actors’ interests is based in the existing corporate governance literature and our intention is to stylize the interests so that they can be operationalized in our model. Traditionally, employees’ concerns focus on issues of employment conditions, compensation and job training. With globalization and the accompanying trend to export jobs to low labor cost countries, MNC employees are more likely to be particularly concerned about job retention. Top management team interests relate to the survival of their jobs as well as the ability to utilize their skills and knowledge especially as they relate to international expertise so that they do not become perishable. Top managers will also be concerned about developing inter-organizational relationships that might lead to future career advancement and
mobility. *Boards of directors’* main interests are to represent the constituencies that have elected them so that they can continue to hold their positions. This interest is contingent on whether the directors are insiders or outsiders. Insider directors’ interests will be mediated by potential alignments with the top management team (and particularly the CEO). Outside directors’ interests will be contingent on the stakeholders they represent and their independence.

The key issue in regard to *shareholders* is whether their sole interest is maximization of shareholder value, in which case they will favor whatever global strategies are needed. Any shareholders with additional interests may hinder aspects of global strategy that work against their partial interests. Only the purely arms length shareholder will care solely about maximization of shareholder value. All other shareholders have partial interests that might overlap with other stakeholders: employee shareholders are concerned with their own employment; shareholders who are also members of the board of directors or TMT will focus on the interests of their particular constituency, and their own job retention and remuneration; governments who own shares typically have national interests. Finally, other shareholders can have their own partial interests: institutional investors may seek to prevent the status quo (as is often the case in Germany), banks may seek to safeguard their loans, and families may seek to preserve the company within the family and its legacy. Finally, *governments’* main interests are to protect their national markets and to enhance economic and social development within their boundaries.

CG actors can pursue and protect their interests only if they possess the necessary mechanisms to influence global integration, and these mechanisms are also contingent on the national context. We define mechanisms as the tools available to corporate governance actors to either enable or hinder global integration. Each of the five actors has inherently different types
and strengths of mechanisms for influencing globalization within each country. For example, German employees have a strong mechanism via their statutory representation on supervisory boards, which is not the case in the United Kingdom. Conversely, British companies must, by stock market regulation, include a majority percentage of outsider directors on their boards, which is not the case in French companies.

We identify the mechanisms for each actor as follows. Employees’ mechanisms for influencing firm governance depend on the corporate governance regime in which they operate (Hyman, 2001; Knudsen, 1995; Locke, Kochan, & Piore, 1995). The CG literature has identified “employee voice” as the key mechanism for employee influence. Examples of employee voice are board representation, work councils, equity ownership, unions, consultation rights, and rules on working conditions and job security. The top management team (TMT) has the most direct and powerful mechanism by engaging in day-to-day responsibilities for formulating and implementing all strategies. The board of directors has a different mechanism: oversight of corporate activities, ratification of major strategy and organizational changes, and selection of the most senior executives. Shareholders tend to enjoy a typically much less direct mechanism for influencing corporate strategy, via their primary shareholder rights of election of the board of directors and, hence, also the right to be heard mostly through voting rights in the general shareholder meetings. Governments have two primary mechanisms for intervening in business. First, they set the general rules and regulatory regimes. These rules and regimes also distinguish between domestic and foreign firms, and between domestic activities and foreign activities. For example, there may be general rules about the export of jobs and the import of foreign labor, or about the closing of operations. Second, governments may intervene in individual cases, such as whether to allow a particular company to be sold to a foreign buyer. The discussion above
uncovers how we define corporate actors’ interests and mechanisms. The next section elaborates
on our definition of global integration.

GLOBAL INTEGRATION DIMENSIONS

To analyze how corporate governance affects global integration we need a working
definition of our dependent variable, global integration. We draw on Yip’s (1992) global strategy
framework because it is the most comprehensive, it synthesizes strategic features of most other
researchers (Porter, 1986; Prahalad & Doz, 1987; Bartlett & Ghoshal, 1989), and it has been
empirically validated (Johansson & Yip, 1994; Yip, Roos, & Johansson, 1997). In addition, this
framework provides a useful breakdown of the dimensions of globalization and global strategy
that can be aligned with the different corporate stakeholder interests that we propose. The Yip
framework has three major dimensions to account for global strategies: industry globalization
drivers, global strategy elements, and global organization factors, with varying roles for
corporate governance actors. The dimension of “industry globalization drivers” highlights the
conditions in each industry that create the potential for undertaking a global strategy. This is
beyond the scope of this paper as CG actors have little effect on industry globalization drivers.

The construct of “global strategy levers” uncovers the five main strategic dimensions that
a MNC can take when globalizing as well as the variance within each strategy lever. These five
levers are described as follows (Yip, 1992). Global market participation involves the MNC choice
of country-markets in which to conduct business, and the level of activity, particularly in terms of
market share. In the network global mode, MNCs participate in many markets but emphasize
strategic ones. Global products/services encompasses the extent to which an MNC offers the same
or different products in different countries. In the network global mode, MNCs sell a mix of global
and local products. Global location of value-adding activities refers to the degree to which MNCs
locate activities globally. In the network global mode, MNCs operate a globally integrated network of activities. *Global marketing* points to the degree to which MNCs adopt the same brand names, advertising and other marketing elements in different countries. In the network global mode, MNCs use a mix of global and local marketing. And finally, *global competitive moves* involve the extent to which MNCs integrate actions against competitors into a worldwide strategic plan. In the network global mode, MNCs make full use of global competitive moves.

The construct of “global organization levers” refers to the organizational characteristics that will be necessary in formulating and implementing global strategies. It includes both company managers and leaders as explicit corporate stakeholders playing a major role in implementing global strategy (Yip, 1992:181), but it fails to directly account for other stakeholders such as employees. The organizational dimension includes four broad levers where corporate stakeholders in an MNC can influence global strategy implementation. These are the following. *Global organization structure* comprises the reporting relationships in a MNC—the "boxes and lines"—and the extent to which its structure is globally centralized or integrated. In the network global mode, MNCs operate a network structure. *Global management processes* encompass the activities such as planning and budgeting that make the MNC run and refer to the extent to which these processes are globally integrated or uniform. In the network global mode, MNCs operate global processes with small local variations. *Global human resources* include both managers and all other employees of the worldwide MNC and refer to the extent to which its HR policies and practices are global rather than local. In the network global mode, MNCs largely ignore nationality in HR decisions. Lastly, *global culture* comprises the values and rules that guide behavior in a corporation and refers to the extent to which the company culture is global rather local. In the network global mode, MNCs maintain a global identity and culture.
CORPORATE GOVERNANCE ACTORS AND GLOBAL INTEGRATION

In this section, we conduct a stylized theoretical analysis to explain how each corporate governance actor is more likely to behave in regards to each lever of global integration (strategy and organization). It is worth noting that this discussion refers to ideal types of corporate governance actors at the country level for the sake of categorization. Basically, we examine the extremes to be able to highlight conflicts of interest among stakeholder within the MNC. Moreover, to illustrate our theoretical arguments, we refer to selected CG practices and conditions in six major countries that exemplify types of overall corporate governance regimes: the “Anglo-Saxon” models of the United States and the United Kingdom, the “Continental” model of Germany, the Latin model of France and Italy, and the “extended” model of Japan. The differences between these country models are well documented in the literature (Gospel & Howard 2003; Hall & Soskice, 2001; Pedersen & Thomsen, 1997; Whitley, 2002). Table 2 presents a brief summary of the main characteristics of the five corporate governance actors in the six selected countries.

[Table 2. Main Characteristics of Corporate Governance Actors in Six Selected Countries]

We would like to illustrate with a few examples how the national institutional setting has shaped the different characteristics of corporate actors across countries. For instance, the characteristics of the country’s labor market will influence the flexibility and mobility of employees (Locke et al., 1995). Countries with employment at will, such as the U.S., are likely to have flexible labor markets and short term labor commitment. Generally, the consequence is that labor training is done outside the firm (Gospel & Pendleton, 2003). In rigid labor markets, such as Germany and Japan, firms invest a great deal in in-company training, which tends to result in higher skilled labor forces. Another main determinant of country variation is the
strength of labor unions and unionization rates. For instance, in countries such as France, where union rights get extended to all employees regardless of union affiliation, unionization will have a much higher influence than in the U.S. or the U.K., where only union members benefit from collective bargaining. Japanese firms tend to have enterprise unionism, which leads to collective bargaining at the firm level (Goyer, 2002; Japan Institute of Labor, 1998; Marsden, 1999; Streeck & Yamamura, 2001). This gives a strong voice to employees in the firm.

Cross-national variation in the characteristics of TMTs is mostly reflected in their functional background and their international experience as well as the patterns of managerial career mobility (Carpenter, Sanders, & Gregersen, 2001; Gospel & Pendleton, 2003; Japan Institute of Labor, 1998; Lane, 1989). U.S. and U.K. managers tend to have professional backgrounds (often with formal business school education) and strong finance or marketing functional backgrounds. This is not the case in Germany where managers are more technically oriented (Heinz, 1999; Morrison, 1992). In France, managers often share a common “grandes écoles” background and ideology, frequently linking them back to former government positions (Morin, 2000). The international experience of managers also varies cross-nationally with U.S. managers having the most foreign-born individuals in their TMT and France, Italy and Japan the least, in part explained by their lagging in internationalization (Pechter, 1993). Managerial career mobility tends to be very fluid in the U.S. and U.K. due to open labor markets, whereas in Japan and France, managers tend to be with the firm long-term (Abe, 1994; Gibson & Roe, 1999; Marsden, 1999).

The composition of boards of directors also shows strong contrasts across countries. For instance, Japanese firms are renowned for very large (some times fifty or more members) and inefficient boards. Japanese boards also have very few outsiders to monitor managers and the
strategic direction of the firm (Finkin & Jacoby, 2000). Italian and French boards are considered medium size, and still quite inefficient due to the lack of outsiders. Germany is an outlier because it tends to have a wide variety of stakeholders represented in the upper (supervisory) board, such as employees, industrial banks, and suppliers. The most active boards are in the U.K and the U.S., in part due to the enforcement of corporate law (La Porta et al., 1998). In the U.K., the Cadbury Report and subsequent codes of good governance have had a great deal of influence in designing efficient boards. British firms listed in the stock market must comply with the codes of good governance or otherwise report all areas of non-compliance and justify it. Guidelines, such as majority percentage of outsiders and activism in board subcommittees, have been almost universally implemented. In the United States, the Sarbanes-Oxley Act of 2002 has also introduced pressure for a higher percentage of outsiders on U.S. boards.

Countries vary in their mix of types of shareholders (Becht & Roel, 1999), which according to La Porta et al. (1998) is strongly associated with the strength of their shareholder rights. For example, Barca and Becht (2001) illustrate the sharp differences in the degree of separation between ownership and control in different countries. At one extreme, the United States and the United Kingdom have mostly arms length, neutral shareholders, who are focused on shareholder value maximization. Although many British shareholders are large institutions, generally these play passive roles (Short & Keasey, 1997). Comparative studies have paid a great deal of attention to the ownership contrasts between the two predominant non Anglo-Saxon economies, Germany and Japan (Hopt, Kanda, Roe, Wymeersch, & Prigge, 1998; Japan Institute of Labor, 1998; Streeck & Yamamura, 2001). They conclude that although Japan has plenty of institutional shareholders, these tend not to be neutral and often act as part of a network (“keiretsu”) that supports the role of the company within the network and, hence, incumbent
management. Germany’s main trait is that many companies have banks, as lenders and shareholders, playing a leading role in influencing corporate policy (Goyer, 2002).

Finally, countries also differ in terms of the degree of government intervention in their economies and protectionism of their markets (Murtha & Lenway, 1994). Government intervention is usually in the form of market regulation. A representative measure for government intervention in the economy is regulation around takeovers. The United States and the United Kingdom to a lesser degree have weak takeover barriers and it is mostly up to individual firms to design anti-takeover measures (Gaughan, 2002). Conversely, in countries such as France, Germany, Italy, and Japan, government intervention often provides strong takeover barriers, such as via “golden shares” (Bishop & Kay, 1993). Other forms of government intervention are firm subsidies to make local firms more competitive in the global market (Evans, 1995; Gerlach, 1992; Guillén, 2001). Aligned with government direct intervention in firms, governments also tend to be more free-market oriented in the United States and the United Kingdom and more protectionist in the rest of our selected countries (Fraser Institute, 2003).

Next, we discuss for each actor its particular interests, its mechanisms for influencing global integration decisions in favor of those interests, and the specific effects on individual elements of global integration. This analysis of CG actors in the multinational HQ country provides the rationale for predicting the ability of MNCs in different countries to engage in global integration, and change their modes of globalization, especially toward the network global mode with its large aspects of global integration.

**Employees**

The *capacity of employees’ to influence the firm* to protect their interests will have important effects for the firm’s ability to make globalization changes. We operationalize
employees’ involvement in terms of their ability to influence the firm’s decision-making through voice and we categorize it as a dichotomous variable: strong and weak. Strong employee voice means that employees have the ability to influence decisions on global strategy that will favor their own interests because these employees enjoy extensive bargaining power, have a voting right on the board of directors or possess the necessary knowledge for firms’ competitiveness.

Regarding the strategy dimensions of global integration, strong employee voice will be used to support decisions to expand global market participation, as this latter applies to the global expansion of sales and therefore should ultimately favor home employment rather than threaten it. A successful global product strategy requires not just the right product or service design but also the ability to manufacture to world-class standards. Companies based in countries that for whatever reason cannot produce to world-class standards will, therefore, find it hard to adopt a global product strategy. The extensive literature on product quality shows that employee involvement improves quality (De Meyer, Miller, Nakane, & Ferdows, 1989). For example, Japanese quality circles and German work councils provide a mechanism for employees to contribute to better products. More generally, employees with a strong voice tend to be more committed employees, as exemplified by the German and Japanese cases.

Global activity location (for MNCs from developed economies) typically involves moving jobs to lower cost countries. Home country employees with strong voice will be much more able to resist such moves. Global marketing can involve the lessening of national identity (e.g., the dropping of “British” from the names of many UK companies). Home country employees with strong voice may resist such changes for nationalistic reasons beyond job preservation and conditions. Global competitive moves often require sacrifice of home country
position, resources, revenues or profits, and hence domestic jobs or working conditions. Again, employees with strong voice can more successfully resist such moves.

The country characteristics of employees as a corporate stakeholder might also have the capacity to influence global organization through the voice mechanism. Global organization structures reduce the autonomy of individual country subsidiaries in favor of central authority. The general result is lesser concern for the interests of individual countries in favor of global performance and profit maximization, which might involve the global relocation of jobs. This could hurt home country employment and conditions, and hence be resisted by home country employees who have strong voice. Employees with strong voice should favor such structures so long as the home country is dominant. Global management processes reduce cross-national variations in administrative procedures. Home country employees with strong voice will generally favor the maintenance of their own national systems because that will usually preserve more favorable work conditions. Hence employees with strong voice will resist global management processes. Global human resource policies typically reduce favoritism toward home country employment and conditions, as the firm seeks to optimize its global use of human resources. For example, this may mean convergence of employment conditions toward a lower, global standard. Home country employees with strong voice are likely to resist the globalization of HR policies. Global culture involves moving away from the home country culture. While this may not have a direct effect on their jobs, home country employees will through nationalism be averse to global culture.²

Hence, countries with a CG system with strong employee voice will favor a globalization mode with global market participation and global products but no other element of global

² Our comments about the effects of nationalism on global marketing and global culture imply that the resistance from strong employee voice will be greater in countries with more nationalistic cultures.
strategy and organization. The above arguments are summarized in the first row of Table 3 and lead us to the following proposition:

Proposition 1: Countries with strong voice employees in the CG system will have a large proportion of companies that can adopt only a few aspects of global integration.

[Table 3. Influence of Different Corporate Governance Actors on Global Integration]

Top Management Teams

Top management teams (TMT) have many characteristics that yield interests that may favor or discourage globalization changes and that also vary systematically across countries. These characteristics include: prior international experience, presence of foreign nationals, ties to founding or controlling family, ties to government, and career mobility. Furthermore, the TMT has the ready-made mechanism for influence in being directly responsible for the formulation and implementation of strategies.

Prior international experience. The international business literature has established that top managers with prior international experience are more likely to favor internationalization (Sambharya, 1996). These studies did not go much beyond this first element of global strategy--global market participation. We argue that prior international experience should make top managers less biased toward strategies that favor the HQ country, and hence more favorable to all aspects of global integration. Such globalization strategies will also favor the personal interests of such top managers by playing to their strength. Among the four selected European countries in Table 2, British companies are more likely to have more top managers with prior international experience. With the largest domestic market, American companies are the least likely to have top managers with international experience but this is offset by the comparatively large percentage of companies led by foreign-born executives. Japanese companies have the
fewest difficulties in sending executives on short foreign assignments (Japan Institute of Labor, 1998). Having TMT members with prior international experience should favor all aspects of global integration, but particularly those related to two levers requiring knowledge of other markets, e.g. *global market participation* and *global activity location*.

*Presence of foreign nationals.* Having foreign (i.e., non-HQ country) nationals in the TMT will have an even stronger effect favoring globalization and global integration. Almost inherently, such foreign nationals will be less inclined toward HQ country solutions, and globalization will tend to support their personal interests relative to HQ country nationals. Among the six countries, Japan has the fewest foreigners in the TMTs of its MNCs (Kono & Clegg, 2001), and the U.S.A. has the most (Pechter, 1993). Among the four European countries, British MNCs have the most foreigners in their TMTs, especially given the recent U.K. trend of appointing foreign chief executives (Japan Institute of Labor, 1998). Again, having foreign nationals as TMT members should favor all aspects of global integration, but particularly *global market participation* and *global activity location*.

*Ties to founding or controlling family.* As argued earlier, family shareholders can be biased against global integration. Hence, top managers with ties to, or members of, founding or controlling families will have similar biases, and will tend to represent the interests of the family. Top managers with such ties are most prevalent in Germany, France and Italy (Federowicz & Aguilera, 2003), and least so in Japan (Gerlach, 1992). Having TMT members with ties to founding or controlling families should disfavor all aspects of global integration, except for *global market participation* because it directly relates to increasing sales.

*Ties to government.* Top managers who have come from government positions or who have strong ties to government are likely to exhibit the interests of government in regard to
globalization and other decisions. Among the six countries, France stands out as having a large number of top managers who have transferred from government posts into high-level corporate jobs (Goyer, 2002; Morin, 2000). In the United States, movement tends to be in the opposite direction, with former CEOs taking positions as senior government appointees (Morrison, 1992). Japan’s lifetime employment system implies little exchange in either direction (Kono & Clegg, 2001). Having TMT members with ties to government should disfavor all aspects of global integration, especially global activity location, but except perhaps for global market participation.

Career mobility. In general, we expect that TMTs comprising mobile, professional managers are more likely to globalize. Top managers with lifetime employment in the firm or limited career mobility are more likely to act as fiduciaries for stakeholder interests and be more conservative about globalization. In contrast, we expect that companies with mobile, professional TMTs will favor globalization due to empire building reasons which translate into larger compensation packages. Among the six countries, the U.S. stands out as having the most mobile managers, the U.K second, and Japan the least (Gospel & Pendleton, 2003; Locke et al., 1993). Having career mobile executives as TMT members should favor all aspects of global integration.

Summary. Top managers who have prior international experience, are non-HQ country nationals, and who are mobile professionals are likely to favor all aspects of global integration, while top managers with ties to founding or controlling families or government are likely to disfavor many aspects. These arguments are summarized in the second row of Table 3.

Proposition 2: Countries where top management teams are more likely to comprise career mobile managers with prior international experience, who are foreign nationals,
and who do not have ties to founding or controlling families or government, will have a higher proportion of companies that use most or all aspects of global integration.

**Boards of Directors**

Boards of directors have internationally similar obligations to provide oversight of the company, although specifics vary by country. These international variations in legal obligations should not generate variations in globalization preferences, except in special cases, such as defense firms that are constrained by law from exporting technology. Directors’ personal interests in maintaining their positions by representing the constituencies that elected them will affect globalization preferences. These interests do vary on average by country. To implement their interests, board members can use the mechanism arising from their rights to provide oversight of corporate activities, ratify major strategic and organizational changes, and to select senior executives. These mechanisms, also, vary on average by country.

Boards differ importantly in terms of their structure and composition (Daily and Dalton, 1994). As we are concerned here with the personal interests of board members, board *structure* should have much less influence than board *composition* on globalization preferences. Via composition, board members can represent or constitute actors with biases against global integration: employees, family or institutional shareholders, top managers, government, or other stakeholders such as NGOs. The composition of boards varies by both custom and law. The classic division of board composition is insider vs. outsider directors (Stiles & Taylor, 2001). Insider directors are those that also exercise executive responsibilities in the firm. We have already analyzed such insiders in the TMT section of this paper. Outsider directors can represent a particular shareholder constituency (discussed under the Shareholders section) or they can be independent, but they must always be non-executives. German, Italian and Japanese boards have
had a high proportion, usually a majority, of corporate executives, with very few external/independent directors (Aguilera & Federowicz, 2003; Jackson 2001). In contrast, U.K., and to a lesser extent U.S., boards have a majority of outside directors (Stiles & Taylor, 2001). Interestingly, French boards provide a hybrid model as they increasingly become Anglicized due to pressure from foreign institutional investors (Goyer, 2002). Board members, like shareholders, can have multiple interests other than shareholder value maximization or what we refer as partial interests. For instance, when a board member is also a top manager or employee representative (insider), he or she may favor firm decisions that will protect their jobs and maximize their individual interests as opposed to those of shareholders. Thus, board members might also have partial interests as opposed to neutral interests toward firm value maximization.

The insider/outsider split has mixed effects on globalization. On the one hand, outsiders (unless they represent special interests) should be able to make the most neutral tradeoffs about the risks involved in globalization. Boards dominated by neutral outsiders should be less risk-averse than boards dominated by insiders because they do not have at stake their shares or job security. Outsider directors are more likely to favor globalization strategies, particularly global market participation, global products and services, and global activity location as they have few, if any, ties to HQ-country employees. On the other hand, insiders typically have incentives of empire building tied to higher pay to offset any inherent preference for the status quo. Here, performance evaluation and reward are also critical.

As discussed earlier, employees have particular biases against globalization; hence, so will their board representatives. Board members from local community stakeholders will have similar biases. German supervisory boards are required by the Co-Determination Laws to have employee representatives, their number and proportion depending on the size of the company
(Hopt et al., 1998). In the other countries, labor representation and participation in firm
decision-making is rare, except where they are significant shareholders.

Countries also vary in the extent to which major shareholders have board representation.
In the United States and Britain, large institutional shareholders have only very recently sought
representation and active engagement on boards (shareholder activism) (Gospel & Pendleton,
2003). In contrast, in Germany and France, it is the norm to have major shareholders, such as
banks or institutional investors, sitting on the board (Federowicz & Aguilera, 2003; Goyer,
2002). Being a shareholder, per se, does not result in globalization biases. But shareholders with
particular interests, as discussed in the next section, may have important biases.

Countries also will vary in the extent of board representation of corporate stakeholders,
independent of shareholdings. Japanese boards usually include representatives of other keiretsu
members, while German and other Continental-style boards often have banks and other corporate
partners represented (Jackson, 2001). All such business partners may bring particular biases in
globalization decisions. For example, a board member from a major supplier will favor location
decisions that match its own configuration and capabilities, which in most cases will mean a bias
to the HQ country (assuming the supplier has the same HQ as the company, which is nearly
always the case for supplier board members). Board members from lenders may be cautious
about global expansion.

Finally, countries vary in the extent to which governments are represented on boards,
most typically because of their shareholdings. The countries with greater state participation, such
as in France and Italy, will have more government board members (Guillén, 2001). In addition,
some countries, again France and Italy, may have government representatives or former
government officials, as board members, independent of shareholding. As will be discussed in the section on governments, the latter clearly have globalization biases.

The mechanism for board members to influence firm globalization is by voting to approve major investments and policies, such as entering new markets and relocating activities. In addition, boards also appoint top managers. International variations in the rights of boards probably matter less than variations in the degree of activism. Active boards are more likely to detect and mitigate the globalization (and other) biases of particular board members. Typically, boards in Anglo-Saxon systems are more active. Studies also often find a correlation between board activism and composition: more active boards have a higher percentage of insiders versus outsider directors. There is also some evidence in the literature that independent boards are more likely to pursue global strategies and insider boards might prefer to protect their partial interests and pursue strategies that preserve the status quo (Carpenter, 2002).

We have argued that various types of board members may have globalization biases. Typically these biases will be toward the preservation of HQ country jobs, investments, and power. Hence, board members with partial interest will favor only a few aspects of global integration, probably global market participation and global products. They are unlikely to favor those aspects that make the network global model possible, especially global activity location (moves jobs and investment from HQ country), global organization structure (can shift power outside HQ country), global management processes (reduces special treatment of HQ units and personnel), and global human resources (eliminates preference for HQ nationals). The third row of Table 3 summarizes these effects and suggest:
Proposition 3: Countries with a greater proportion of boards with non-independent directors, who have partial interests are likely have a higher proportion of companies that can use only a few aspects of global integration.

Shareholders

Completely armslength shareholders should be concerned only with maximizing shareholder value, and have no globalization biases. Admittedly, global strategies often involve long term time horizons, much longer than the typical holding period of many shareholders. For example, institutional shareholders in the U.S. now hold shares on average less than one year. On the other hand, valuations are based on expectations of future earnings and the market generally rewards viable long term strategies. However, market expectations tend to vary, contingent on the nature of the shareholder. Typically, U.S. companies have the largest percentage of their shares held by armslength shareholders, closely followed by British companies (Gospel & Pendleton, 2003; Shleifer & Vishny, 1997). Japanese companies have a high percentage of shares held by keiretsu members (Gerlach, 1992). German companies have a high percentage held by banks (Hopt et al., 1998). French companies have high percentages held by banks, the government and family owners (Goyer, 2002). Italian companies are still dominated by family owners (Barca, 1994). Any non-arms length shareholder will have some globalization biases, depending on their particular interests.

The mechanism for shareholders’ influence is, of course, through their votes and exercise of other shareholder rights. National CG systems do vary in the strength of shareholder rights (La Porta et al., 1998; Whittington & Mayer, 2000). Shareholders with partial interests will use their shareholder rights as a mechanism to constrain globalization choices in favor of their particular interests. This effect will be greatest in those countries with more partial shareholders (who may
also hold other non-value maximization interests, such as firm sustainability) and stronger shareholder rights, although, in general, there is a negative correlation between these two phenomena.

Most shareholders, whether neutral or partial, should be in favor of *global market participation* as that usually enhances domestic interests such as employment. Hence, in general, partial shareholders with strong rights will argue for global market participation. There are, however, some exceptions. Family shareholders may find it difficult to increase global market participation if it requires giving up control. Most government shareholders tend to be partial toward conservatism and national interests, and hence discourage foreign ventures, especially when these require foreign direct investment and not simple exports. The evidence for this argument is that once privatized, many companies go international or increase their level of global market participation.

Whether shareholders are neutral or partial has little effect on the ability of MNCs to produce *global products and services*. For example, Japan and Germany produce, on average, the highest quality global products (Guerrero-Cusumano & Selen, 1997) and have similar types of shareholder interests (large institutions that favor incumbent management and the status quo). France and Italy have relatively large shareholdings by partial government shareholders but are not as successful in producing global products except in some niche areas (Federowicz & Aguilera, 2003). The United States and Britain have similar CG in terms of having mostly neutral shareholders, but the former has many more companies with successful global products while the latter has almost no global products left, but a significant number of globally competitive services (especially in finance, airlines, and creative industries, as evidenced by the nature of the British companies featuring in the *Fortune* Global 500 list each year).
Neutral shareholders should favor *global relocation of activities* if that is in the best interests of the company and ultimately shareholder value. Some types of partial shareholders with strong shareholder rights may oppose global relocation. In particular, significant equity ownership by home country employees makes it difficult for companies to move jobs overseas. Government shareholders might also seek to protect domestic employment and production. Some family shareholders may also have sentimental or altruistic reasons for preserving production domestically to be able to exercise greater control.

Partial shareholders should have a small negative effect on the use of *global marketing*. At the margin, some home country shareholders, such as employees and governments, may prefer marketing that retains national identity. Second and later generation family shareholders may also seek to preserve a company heritage that has a national identity. Finally, partial shareholders with home country interests and strong shareholder rights should make it harder for an MNC to make *global competitive moves*, as these often require sacrifice of home country position, resources, revenues or profits, and hence domestic jobs and resources.

The relationship between shareholder interests and global organization is mixed. First, even partial shareholders with strong shareholder rights should favor *global organization structures* so long as the home country is dominant. An exception is that state owners may favor country-based organization structures, or a domestic-international split in order to preserve home country jobs, investment, and control. A change from national family ownership to foreign or neutral ownership can trigger reorganization toward a global structure. Second, partial shareholders should favor *global management processes* so long as the home country processes dominate. Third, some types of partial shareholders, especially employees, should make it harder for an MNC to have *global HR policies*, as they will favor the employment and advancement of
home country nationals. Family shareholders may also find it hard to apply neutral global human resource policies. Finally, firms controlled by family, domestic employee, or bank shareholders may find it hard to create global culture.

The above arguments are summarized in the fourth row of Table 3. There are one positive, two conditionally positive, one neutral, and five negative effects from having shareholders with partial interests and with the means to influence globalization through strong shareholder rights. In general, partial shareholders would seem to weaken the ability to build global integration:

*Proposition 4. Countries where shareholders with partial interests are the norm will have a large proportion of companies that can adopt only a few aspects of global integration.*

**Governments**

Governments’ interests in regard to globalization have an inherent bias toward their own countries. Governments will seek to influence the globalization strategies of both companies that are headquartered in their countries and also the strategies of foreign companies with local activities or subsidiaries. The extent to which governments seek to intervene in company globalization depends mostly on ideology, particularly between liberal and protectionist ideologies (Chandler et al., 1997; Guillén, 2001; Hall & Sosckie, 2001). As mentioned earlier, the U.S. and the U.K. have had, and continue to have, the most liberal regimes, while Japan continues to be highly protectionist. Among the three Continental countries, France is the most protectionist, Germany next, and Italy least.

In terms of mechanisms for exercising government interests, both domestic and foreign companies are affected by general government rules and regulatory regimes, and by specific interventions. But domestic companies are also affected to the extent that governments are
directly involved in corporate governance, by playing the roles of CG actors or influencing actors. Governments may: give particular rights or pay particular attention to employees’ interests in globalization; provide former government officials to the top management team; have membership of boards of directors; and act as shareholders. As already discussed, the major countries vary in the extent to which government plays a role in CG. Typically, the countries with the most protectionist governments also have governments playing the greatest role in CG. Japan is an exception in having a highly protectionist government that plays a relatively small role in CG, using instead direct regulation and intervention to pursue its interests (Streeck, 2001).

We now explore the relationship between protectionist governments and their regulatory and CG mechanisms to influence global strategy. Protectionist governments are more likely to encourage global market participation so long as jobs are not exported. They will also prefer exports as the mode of market participation rather than the setting up of overseas subsidiaries. They should in theory favor the development of globally successful products and services. In practice, protection often, but not always, produces less competitive products. In addition, protectionist governments will make it harder for MNCs to locate activities globally outside the home country, usually to preserve employment and utilize domestic resources and skills. Even liberal governments, such as that of the United States, can discourage some global relocations. Although, they will probably be neutral as to whether domestic MNCs use global as opposed to national marketing. Such governments may have a slight preference for preserving aspects of national identity. Protectionist governments should make it harder for an MNC to make global competitive moves, as these often require sacrifice of home country position, resources, revenues or profits, and hence domestic jobs or working conditions.
As for the relationship between protectionist government and global organization, protectionist governments should: (1) favor global *organization structures* so long as the home country is dominant; (2) favor *global management processes* so long as the home country processes dominate; (3) make it harder for an MNC to have *global HR policies*, as they will favor the employment and advancement of home country nationals; as well as (4) make it harder for an MNC to implement a global, rather than home country, *culture*. The above arguments are summarized in the fifth row of Table 1 and leads to the following proposition:

*Proposition 5: Countries where the dominant government ideology is protectionist will have a higher proportion of companies that can use only some aspects of global integration.*

**CONCLUSION AND DISCUSSION**

In this paper we have developed a framework and model to explain how national corporate governance systems affect the ability of MNCs to achieve global integration in terms of global strategy and global organization. Drawing on actor-centered institutionalism, this framework identified five types of corporate governance actors, the interests that they seek to promote, and the mechanisms by which they can influence firm decisions. We showed that each type of actor has particular biases and potential conflicts of interest relative to unfettered pursuit of global integration. Hence, strong mechanisms of influence in a national CG system for each particular CG actor will result in powerful, related biases in regard to global integration.

We deliberately discussed our arguments in the context of six leading nations that exemplify the four most prominent types of CG systems: Anglo-Saxon (United States and United Kingdom), Continental European (Germany), Latin (France and Italy), and Extended (Japan). An
extension of our proposed theoretical framework is that we can now make systematic predictions of CG effects on global integration for these six countries (as summarized in Table 4). In Table 4, the first comment in each cell (summarized from Table 2) estimates the nature of that actor in that country relative to the other five countries. These estimates, although very general, are supported by the studies we have cited earlier. Remember also that these are the most typical country effects, and that our full model allows for firm-specific effects that can vary within countries. The second comment in each cell (after the arrow) indicates the predicted effect on the ability of MNCs in that particular country to engage in different aspects of global integration. Reading down the columns shows that the varying roles of particular CG actors lead to different country predictions of global integration. Reading across the rows shows that there exist differences among the countries in both the CG actor roles and the predicted ability to use global integration. For instance, the United States has favorable predictions from every CG actor for the use of global integration. For the United Kingdom, the pattern of predictions is similar although not quite as strong. For Germany, there is a mix of predictions. For France and Italy, most predictions are negative for the use of global integration. Lastly, for Japan, we show a mix of predictions, although many negative.

[Table 4. Predicted MNC Global Integration (GI) in Selected Countries]

These predictions imply that American MNCs should have the fewest constraints from their national CG systems on moving from their historic globalization modes towards the network global mode, British MNCs the next least, German and Japanese firms facing significant constraints, and French and Italian MNCs facing the most constraints. These predictions generally accord with reality (with the possible exception of Japanese MNCs who seem further
along the path to network global than our model predicts). Table 4 confirms that our actor-based institutional analysis of CG has some explanatory power in regards to globalization.

**Theoretical Implications**

Our paper has distinct implications for globalization theory, governance theory, and institutional theory. In terms of globalization theory, our main contribution is to add the local environment of the HQ as a determining factor for globalization and, in particular, corporate governance as a key construct shaping globalization patterns. CG affects both the formulation and the implementation of global strategies and organizational plans. Our analysis has argued that strong roles, interests and mechanisms of influence for each CG actor predict particular globalization paths or constraints. Our proposed theoretical model fills a gap in the global strategy and organizational literature in that it accounts for the institutional factors that might shape globalization. Our model suggests that in order to understand corporate behavior such as globalization strategies, it is necessary to comprehend the dynamics of the different actors related to the firm. Globalization theory already considers the roles of top managers, employees and governments, although it tends to place most of its weight on top managers. Our further contribution here is to highlight some additional considerations in regards to governance features for these actors. Also, we introduce an emphasis on the roles of actors not usually considered in globalization theory: shareholders and boards of directors.

This paper makes two important contributions to the corporate governance literature. First, we explicate in great detail how corporate governance actors, beyond the principal (shareholders) and agent (managers) dichotomy, experience conflicting interests towards the different dimensions of firm global integration. Other studies have looked at how different CG actors compete for firm resources (Aguilera & Jackson, 2003), but little attention has been paid
in how these actors might influence firm strategies. For instance, while employees as a collective CG actor might have a negative influence towards pursuing the global activity location lever (e.g., setting up plants outside the national boundary), the top management team is more likely to be in favor of such lever. Second, the CG literature tends to focus on in-depth descriptive and empirical studies of one or two countries. The discussion of our theoretical framework brings in a systematic comparison of six countries, thereby synthesizing the extant empirical literature on corporate governance.

Lastly, for comparative studies of institutional theory we can only rely on those existing within the literature on varieties of capitalism (Hall & Soskice 2001) or the literature on business systems (Whitley, 1992). These tend to develop detailed, historical, national, case studies that illustrate, for instance, how Germany developed a very sophisticated vocational training system and the latter’s relationship with German firm competitiveness (Culpepper & Finegold, 1999). Our study borrows from both of these comparative institutional theory literatures by applying its logic to the international business arena. This exercise allows us for the first time to highlight how national institutional factors, such as employee relations or existing types of shareholders, are likely to influence the role, interests and mechanisms available to CG actors in a given country.

**Managerial Implications**

Managers already know how hard it is to formulate and implement global strategies and to design and put into place global organizations. This paper reveals an additional source of difficulty that managers need to recognize and overcome: the nature of their national corporate governance system. At the same time, some firms may find that their national corporate governance system can provide them with comparative advantage.
When firms need to grow, managers have different diversification choices. If they choose to tap into other markets through geographical diversification, then they should be aware of the actor-centered institutional factors that will determine their globalization decisions. That is, managers can capitalize on their national comparative advantages, such as having active boards of directors that will lead to pure global or network global globalization patterns. Alternatively, managers might develop the necessary organizational capabilities to deal with institutional constraints such as having strong unions that might lead to export-based globalization pattern. Understanding the institutional environment within which firms operate at the national level will allow managers to align the different actors’ interests and capabilities with their own firms’ globalization modes.

In effect, individual firms’ CG systems are not identical with the typical CG system in their HQ country. A firm can have a greater or lesser role for each of its actors than the average for its country, and their roles can also be different. Furthermore, firms as represented by particular actors such as top managers and boards of directors, can actively change their CG systems in directions that favor global integration.

Finally, to a large extent the MNC behavior we have described as favoring globalization—risk taking, willingness to change, long term maximization of profits and shareholder value, and neutrality toward domestic national interests—is also the same as that favoring the long-term health and competitiveness of a nation’s companies. Hence national corporate governance systems that favor globalization also favor long-term corporate competitiveness. National governments have both direct and indirect roles in CG. Their direct role comes from being themselves CG actor. Their indirect role comes from how they influence the roles of other CG actors and how they set the context of CG.
Limitations and Future Research

Our paper has a number of limitations that could be solved in further research. First, it takes a somewhat stylized view of CG actors, their interests, and their mechanisms of influence in order to summarize in one paper the HQ effects on global integration. A less stylized approach could examine exceptions to the rule and those special cases, such as employee ownership or government pension funds that do not fit perfectly under particular categories. Second, we examine the effects of CG on only one global integration framework. Applying our analysis to other global frameworks would yield perhaps slightly different conclusions. Third, as a conceptual paper we have not operationalized our construct variables. Future research should explicitly describe how to empirically test our suggested propositions. Fourth, we have discussed our theories with reference to conditions and practices at the six major countries representing the four major CG systems. As our focus was not on these countries per se, we had to make fairly cursory reference to their CG systems.

In terms of future research, an obvious next step would be to conduct an empirical test of our model. The ideal research design would require collecting data from firms in a selection of countries with differing CG systems. By collecting data from firms about both their CG systems and their global strategy and organization, we would get both the national effects and the firm specific effects in our model (Figure 1). The test should also control for industry effects by surveying all the firms in a selection of industries. Another related area of future research is to expand the model to CG actors outside the firm by including actors such as customers, suppliers and competitors and to examine how they might influence the firm’s global integration.
REFERENCES


Finkin, Matthew and Sanford Jacoby (2000), “Employees and Corporate Governance,”


FIGURE 1.
Model of Corporate Governance Effects on Global Integration

National Institutional Context

MNC CORPORATE GOVERNANCE

GLOBAL INTEGRATION:

GLOBAL STRATEGY:
Market Participation
Products & Services
Activity Location
Marketing
Competitive Moves

GLOBAL ORGANIZATION:
Organization Structure
Management Processes
Human Resources
Culture

Firm Context
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<th>ACTORS</th>
<th>INTERESTS</th>
<th>MECHANISMS</th>
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<td>EMPLOYEES</td>
<td>Job retention and job conditions</td>
<td>Voice (weak/strong)</td>
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<td>TOP MANAGEMENT TEAM</td>
<td>Job survival</td>
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<td>Utilize international experience and expertise</td>
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<td>BOARDS OF DIRECTORS</td>
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<td>a) insider – refer to TMT discussion</td>
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<td>such as maintain control)</td>
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<tr>
<td>GOVERNMENT</td>
<td>Protectionist/Liberal</td>
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<td></td>
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<td>Intervene through regulation and direct action</td>
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<tr>
<td></td>
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<td><strong>EMPLOYEES</strong></td>
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<td>Flexible Labor</td>
<td>Flexible Labor Mkt</td>
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<td>Low unionization</td>
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<td>Employment at will</td>
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<td><strong>TOP MANAGEMENT TEAM</strong></td>
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<tr>
<td></td>
<td>Professional (Finance/MBA) background Foreign-born mgmt Open labor markets</td>
<td>Semi-professional background Some Foreign-born mgmt Open labor markets</td>
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<td></td>
<td>High Activism High % of outsiders due to inst. Investors pressure</td>
<td>High Activism High % of outsiders determined by law</td>
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<td><strong>BOARDS OF DIRECTORS</strong></td>
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<td></td>
<td>Institutional Invest. &amp; individuals Dispersed</td>
<td>Institutional Invest. Dispersed</td>
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<td><strong>SHAREHOLDERS</strong></td>
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<td></td>
<td>Liberal policies Arms-length Weak takeover barriers</td>
<td>Liberal policies Arms-length Weak takeover barriers</td>
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<td><strong>GOVERNMENT</strong></td>
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# TABLE 3.
Influence of Different Corporate Governance Actors on Global Integration

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<td>(strong role)</td>
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<td>Team (international,</td>
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<td>no ties,, mobile)</td>
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<td><strong>Board of</strong></td>
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<td>Neutral</td>
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<td><strong>Directors</strong></td>
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<td>(non-independent)</td>
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<td>Conditional Positive</td>
<td>Conditional Positive</td>
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<tr>
<td>(partial interests)</td>
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<td>Neutral</td>
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<td>Conditional Positive</td>
<td>Conditional Positive</td>
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<tr>
<td>(protectionist)</td>
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<table>
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<tr>
<th></th>
<th>ANGLO-SAXON SYSTEM</th>
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<td>United States</td>
<td>United Kingdom</td>
<td>Germany</td>
<td>France</td>
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<tr>
<td><strong>Employees</strong> (strong role)</td>
<td>Weak → All aspects of GI</td>
<td>Weak → All aspects of GI</td>
<td>Strong → Few aspects of GI</td>
<td>Moderate/Strong → Few aspects of GI</td>
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<tr>
<td><strong>Top Management Team</strong></td>
<td>Most → All aspects of GI</td>
<td>Most → All aspects of GI</td>
<td>Some → Some aspects of GI</td>
<td>Fewer → Few aspects of GI</td>
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<tr>
<td>(international, no ties, mobile)</td>
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</tr>
<tr>
<td><strong>Board Of Directors</strong></td>
<td>Few → All aspects of GI</td>
<td>Some → Some aspects of GI</td>
<td>Many → Few aspects of GI</td>
<td>Many → Few aspects of GI</td>
</tr>
<tr>
<td>(non-independent)</td>
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</tr>
<tr>
<td><strong>Shareholders</strong> (partial interests)</td>
<td>Few → All aspects of GI</td>
<td>Few → All aspects of GI</td>
<td>Many → Few aspects of GI</td>
<td>Many → Few aspects of GI</td>
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<tr>
<td><strong>Government</strong> (protectionist)</td>
<td>Very Low → All aspects of GI</td>
<td>Low → All aspects of GI</td>
<td>Medium → Some aspects of GI</td>
<td>High → Few aspects of GI</td>
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