Understanding Diverse Corporate Governance Models through a Cultural Lens

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Abstract

This research paper argues for the importance to understand that any corporate governance model is not separated from culture and can rather reflect culture. This understanding offers greater depth to why governance models vary from one company to another, and from one jurisdiction to another. This paper is structured in three sections. Firstly, what is culture? Then evidence supporting how culture affects corporate governance. After this, this research describes how Culture is the one of underlying factors behind the Variation of Governance Models.

1. What Is Culture?

Governance is a series of intentional attempts to change the behaviour of others to pursue a collective purpose.[i] It uses a range of techniques that often but not always include a combination of rules and norms and some means for their implementation.[ii] Thus, culture is part of corporate governance.[iii] It serves as an important reminder that corporate governance is not just a reflection of martial aspects of life and consequently it can be perceived as rational choices.[iv] It is worth first introducing the meaning of culture, as a key term here.

Douglass C North, one of the most important economic historians and economists of the late 20th century, defined institutions as being both formal and informal, which entails laws and property rights in the former and culture and societal values in the latter.[v] Culture is conceived differently as an informal institution that meshes with formal social institutions and formal private arrangements – that is, laws and contracts, respectively.[vi] Culture can be understood in

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this thesis as 'customary beliefs and values that ethnic, religious, and social groups transmit fairly unchanged from generation to generation'.[vii]

Sociologists conceive the organisation of society to reflect its culture.[viii] Cultural beliefs are the norms and thoughts common to several individuals that govern interactions between these people and between them.[ix] Cultural beliefs influence economic outcomes.[x] Indeed, corporate governance is one of the main economic outcomes and part of the macroeconomy where culture plays a role in governance.[xi]

A novel theory about the role of culture may play in the development of corporate governance structures offers greater depth to this section.[xii] A nation's culture can be considered the mother of all path dependencies, meaning culture may be more persistent than other factors (eg economic) to induce path dependence.[xiii]

Culture and values are associated separately in the literature, as Geert Hofstede proposed.[xiv] He argued that values are an attribute of the individual and considered culture a collectivity that reflects the whole society.[xv] However, his view is not in line with the 'mother of all path dependencies' in corporate governance models,[xvi] where culture and value are two sides of the same coin,[xvii] as reported in related literature.[xviii] I agree with Hofstede.

This mother metaphor may help point out two important implications associated with path dependence.[xix] First, cultural values constitute a heritage of common tests for interpersonal relations and institutions.[xx] Second, cultural values are deeply embedded in people's mind.[xxi] Therefore, financial investment decisions in companies vary according to culture. Some cultures, namely the US, Germany and China,[xxii] which were the selected samples for this research,[xxiii] may be more willing to take more risks than other cultures because they can rely on a social safety net,[xxiv] which is understood here as the ability of people to tie into a social network based on culture and trust.[xxv]

There is no better way to close this section than highlighting that while culture plays a large role in corporate governance,[xxvi] it constitutes only one part of the bigger picture behind the variations of governance models – and it may not even have a role in some pictures. Amir Licht proposed the mother theory above and captured this imperative view of culture:

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At the risk of stretching the mother metaphor a little bit, it can be argued that culture may indeed be perceived as an old mother. It knows a lot, but some of this knowledge might be obsolete today; it is sometimes nagging; it will resist change unless absolutely required. Most importantly, it must not be ignored.[xxvii]

2. Evidence Supporting How Culture Affects Corporate Governance

It has been argued that in a corporate governance setting, cultural orientations will affect corporate governance models; structures because culture affects a broad set of questions, including modes of corporate finance, primary approaches to stakeholders, shareholding structures, self-dealing, executive compensation and disclosure.[xxviii]

To acquire a taste of how culture might impact corporate governance, consider CEO succession, one of the most substantial governance challenges faced by companies, their boards and shareholders.[xxix] Early references to culture in this regard tended to be impressionistic if not stereotypical.[xxx] The culture of some countries may engender idiosyncratic practices for ensuring the quality of controlling shareholder.[xxxi] For example, Vikas Mehrotra and others reported that in Japan, controlling families may adopt a brilliant executive with an average pedigree with a vision to handing this executive the family company.[xxxii] This is an interesting case how culture matters for corporate governance. In another example, ICGN is dominated by US and UK institutional investors who may perceive fundamental concepts in corporate governance differently, such as equitable treatment of shareholders, than by management and local shareholders in China or Europe,[xxxiii] or indeed in other companies in the US or UK known to share a common origin[xxxiv] of the shareholder model of corporate governance.

It is important not to overlook how corporate governance models are set differently and how concerns are handled differently because there is no one singular mode of corporate governance that is implemented in all companies and jurisdictions in the same way; most scholars have argued that corporate governance models are embedded in different national and sectoral institutions.[xxxv] The discussion on different companies in Silicon Valley established how concentrated power in the hands of the founders has resulted in a different corporate

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governance,[xxxvi] proving that the shareholder model is no longer adopted by some companies in the USA.

3. How Culture Explains the Variation of Governance Models

Culture is more likely to be identified by how power is distributed amongst stakeholders in companies and entrepreneurship.[xxxvii] The deep question is how culture is formed in a way that helps us understand the relationship between shareholders for example and between stakeholders in general.

Culture is reflected through different value dimensions developed under the Schwartz cultural theory that have been validated in survey data from 67 nations.[xxxviii] Because this model explains the relationship between the group and individual, it helps develop this section by describing how culture affects the relationship between the government, as a shareholder, and other shareholders in hybrid companies, which partially results in the state model.

Embeddedness/autonomy[xxxix] concerns the relationship between the group and the individual.[xl] Embeddedness reflects a cultural emphasis on the person as embedded in the group and committed to maintaining the status quo.[xli] The opposite pole, autonomy, describes cultures in which the person is viewed as an autonomous, bounded entity who finds meaning in their uniqueness.[xlii] Applying this dimension to the state model explains why the state plays a large role in this model that reflects autonomy whereases other shareholders who agree to invest in hybrid companies knowing that the state has great power through the bylaws reflects embeddedness.

Hierarchy/egalitarianism is the second cultural dimension.[xliii] Hierarchy refers to a cultural emphasis on obeying role obligations within a legitimately unequal distribution of power, roles and resources.[xliv] it explains why shareholders agree to invest in companies where the power is tipped in favour of one party for example whether director, or a shareholder. Egalitarianism, on the other hand, explains why the welfare of others is higher, as this value refers to an emphasis on the transcendence of selfish interests to promote the welfare of others.[xlv]

Mastery/harmony is the third cultural dimension[xlvi] concerned with the relation of people to the natural and social world.[xlvii] Mastery refers to a cultural emphasis on getting ahead through self-assertion to master, change, and exploit the natural and social environment. In contrast, harmony refers to accepting the social and physical world as it is, trying to comprehend and fit in rather than to change or exploit it.[xlviii] This dimension greatly explains the imbalance relationship between different shareholders, showing how one shareholder masters and changes while other shareholders on the other end of the dimension accept the imbalance of power.

4. Conclusion

To sum up, culture should be identified with differences that explain why governance varies and provide a better understanding of any corporate governance. Connecting national values to the rule of law reflects a substantial influence of cultural dimensions on different versions of governance.

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[xi] Dignam and Galanis, 'Corporate Governance and the Importance of Macroeconomic Context' (n 231) 206.

[xii] Licht, 'The Mother of All Path Dependencies toward a Cross-Cultural Theory of Corporate Governance Systems' (n 706) 149.

[xiii] Ibid.

[xiv] Geert Hofstede, *Culture's Consequences: International Differences in Work-Related Values*, vol 5 (Sage 1984) 19.

[xv] ibid.

[xvi] Licht, (n 12)186.

[xvii] ibid 187.

[xviii] Peter N Rampling, 'Corporate Governance and the Influence of National Culture and Legal Systems' (27 June 2009) 32 <https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1873153> accessed 25 Janurary 2023 ; Sang M Lee and Suzanne J Peterson, 'Culture, Entrepreneurial Orientation, and Global Competitiveness' (2000) 35 Journal of World Business 401, 404.

[xix] Licht, (n 12)187.

[xx] ibid.

[xxi] ibid.

[xxii] Weber, Hsee and Sokolowska (n 3) 172.

[xxiii] The US is reported in this study as an individualistic culture whereases China, for example, is reported as a collective culture, and Germany is a fairly collectivist culture. See Weber, Hsee and Sokolowska (n 3) 173.

[xxiv] Weber, Hsee and Sokolowska (n3 184.

[xxv] ibid.

[xxvi] Ilir Haxhi and Hans Van Ees, 'Explaining Diversity in the Worldwide Diffusion of Codes of Good Governance' (2010) 41 Journal of International Business Studies 710, 712.

[xxvii] Licht, (n12) 200.

[xxviii] Licht, 'Culture and Law in Corporate Governance' (n 3) 16; Licht, '(n 12) 151.

[xxix] Licht, 'Culture and Law in Corporate Governance' (n 3) 17.

[xxx] ibid.

[xxxi] ibid.

[xxxii] ibid.

[xxxiii] Licht (n 12) 157.

[xxxiv] On the link between US and UK in their common law origin based on freedom of contract, protection of property and a minimal state, see Dignam and Galanis, *Corporate Governance and the Importance of Macroeconomic Context* (n 576).

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