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Explaining strategic firm responsiveness to institutional processes in the evolution of corporate governance systems : the reform of director remuneration reporting in Germany

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EXPLAINING STRATEGIC FIRM RESPONSIVENESS TO INSTITUTIONAL PROCESSES IN THE EVOLUTION OF CORPORATE GOVERNANCE SYSTEMS: THE REFORM OF DIRECTOR REMUNERATION REPORTING IN GERMANY

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ABSTRACT

Due to economic and social globalization processes, the boundaries of national systems of corporate governance have become more permeable for the transfer of ideas and practices from other institutional contexts. I derive hypotheses from a multitheoretical framework to explain strategic firm responsiveness to national level pressures for corporate governance reform. This framework integrates institutional, resource dependence, social network, upper echelon, and organizational learning perspectives and portrays corporate governance reform as institutional change. I test hypotheses derived from this framework in the context of the issuance of the German corporate governance code. The code provision of interest recommends that German firms listed on the Frankfurt stock exchange publish a comprehensive director remuneration report for their management and supervisory boards, a practice that is arguably at odds with the traditional regulative, normative, and cognitive-cultural institutional pillars of the German corporate governance system. A unique longitudinal dataset of 189 stock exchange listed firms is used to explain strategic firm responsiveness to the issuance of this institutionally contested provision. In this context, this dissertation is the first study that (partly) operationalizes Oliver's (1991) continuum of strategic responses to institutional processes. The findings reveal that in contrast to arguments advanced by financial economists and legal scholars, economic market forces do not significantly drive firms' responsiveness to corporate governance reform pressures. Instead, firm ownership type and power, labor representatives, management characteristics, and different intra- and interorganizational learning processes are significant predictors of strategic firm responsiveness to national level corporate governance reform pressures. The findings generally provide support for the developed theoretical framework and help corporate governance research to expand beyond the traditional legal and financial economics perspective.

CHAPTER 1. INTRODUCTION AND RESEARCH PROBLEM

The spread of shareholder-value oriented corporate governance policies and practices lies at the core of a broad debate in the social sciences about the effects of economic globalization pressure on national systems of social and economic organization (Habermas, 1999; Sassen, 1996). Scholars in a variety of academic disciplines such as comparative law, economic sociology, international business, and strategic management have for some time debated whether corporate governance templates are converging to the Anglo-American shareholder value oriented model. Over the past decade two camps in this debate have formed: One camp includes the advocates of convergence who emphasize change and view the inevitability of convergence driven by economic globalization pressures (Coffee, 1999, 2002; Hansmann & Kraakman, 2001; Useem, 1998). The other camp includes the proponents of divergence who emphasize continuity and argue that local embeddedness in national systems of social and economic organization places obstacles in the path of convergence (Bebchuk & Roe, 1999; Branson, 2001; Gordon & Roe, 2004a; Hall & Soskice, 2001; North, 1990; Roe, 2003, 2004; Whitley, 1992).

The position of the advocates for convergence is best exemplified by Hansmann and Kraakman's (2001) paper entitled "The end of history for corporate law." In this work the authors argue that the alternatives to a shareholder-oriented model (i.e., the manager-oriented, the labor-oriented, and the state-oriented model) have failed, that the globalization of product and capital markets will eliminate other, less-efficient governance models, and that there has been a shift of ideological orientations and interest group influence in favor of the shareholder-oriented model. They come to the conclusion that "[t]he triumph of the shareholder-oriented model of the corporation over its principal competitors is now assured… " (Hansmann & Kraakman, 2001, p. 466) and that convergence in most aspects of the law and practice of corporate governance will

follow. Their arguments are supported by other theorists who predict global convergence through "the backdoor" as foreign firms list on U.S. stock exchanges and expose themselves to U.S. corporate governance norms (Coffee, 2002) and by those who argue that international institutional investors are pressing corporate managers and policy makers at the national levels towards adopting "best practice" corporate governance, which means U.S. style shareholder value oriented corporate governance (Useem, 1996, 1998).

Although there are certainly many forces that push firms and different corporate governance systems towards convergence on shareholder value oriented lines, there are several factors that might impede convergence. Bebchuk and Roe's (1999) theory of path dependence in corporate ownership and governance best represents the arguments coming out of the divergence camp. The authors argue that two kinds of path dependence, "structure-driven path dependence" and "rule-driven path dependence" impede corporate governance convergence. Structure-driven path dependence refers to the ways in which initial corporate ownership structures directly influence subsequent ownership structures. Efficiency considerations such as complementarities and multiple optima, as well as rent seeking by controlling owners, are the authors' arguments in explaining why prior ownership structures affect subsequent structures. In addition, rule-driven path dependence shapes the choices between ownership structures that are dispersed or ownership structures that are concentrated. Rules are path dependent as well and are formed by prior laws and existing ownership structures. Other authors support this perspective and doubt the optimism of convergence advocates. Spindler and Schmidt (2002), Whitley (1992), Hall and Soskice (2001), and more recently Aguilera, Filatochev, Gospel, and Jackson (2008) advanced the concept of complementarity, the business systems perspective, and the variety of capitalism paradigm as theoretical explanations of path dependence and inertia in corporate governance. Their argument

is that since one institution in a business system cannot be changed without changing another, change can be hard to achieve because if one of the elements of the system changes, the system's overall efficiency decreases (i.e., there are no longer complements). Besides these arguments for "sticky" corporate governance, other authors have argued that anti-Western sentiments and cultural differences also place obstacles in the path of convergence towards shareholder oriented governance systems (Branson, 2001; Buck & Shahrim, 2005; Witt & Redding, 2009).

The polarization of perspectives in the convergence/divergence debate has its roots in the distinction that has been made between stakeholder and shareholder models of corporate governance. When corporate governance became a topic of serious academic discussion and investigation in the 1980s, scholars tended to view these two ideal types of systems as competing conceptions of the firm and emphasized the advantages of one type over the other. Often, this competition was framed as a "battle of the systems", which is now reflected in the either-or-debate in corporate governance reform (Vitols, 2005b).

Stakeholder systems of corporate governance are alternatively called "insider" systems. In these systems, investors that are closely related to the firm tend to influence management through "voice" rather than through "exit" (i.e., selling shares). Only small percentages of the total stock of large firms are in free float, trading volumes are relatively low, and information disclosure for outsiders is weak. As a consequence, these systems are characterized by inactive and underdeveloped capital markets as well as by a weak market for corporate control. Ownership is highly concentrated and owners often hold majority or controlling blocks of shares. Banks, insurance firms, corporate owners, individuals and their families, and the government are the most prominent owner types. Boards are controlled by internal directors or external directors

linked to large shareholders. Two tier-boards are common and include often mandatory labor representatives (Schmidt & Spindler, 2004; Shleifer & Vishny, 1997; Vitols, 2004).

In contrast to stakeholder systems, shareholder systems are “outsider” systems. In these systems, groups other than shareholders do not enjoy “voice” through formal representation in the firms. Market mechanisms play a strong role in governance. In these systems, a high proportion of firms’ stock is in free float, rigorous accounting rules promote transparency and open information disclosure, financial markets are liquid, minority shareholders are well protected, ownership of corporations is relatively disperse, and markets for corporate control are active. The most active and dominant blockholders are institutional investors such as mutual funds and pension funds. Single board structures are common and exist to represent the interests of shareholders and do not include labor representatives (Schmidt & Spindler, 2004; Shleifer & Vishny, 1997; Vitols, 2004).

Based upon this typology, convergence advocates tend to argue that observed changes in corporate governance systems are an indicator of a transformation of stakeholder models into shareholder models (Lane, 2004). On the other hand, divergence advocates tend to argue for continuing differences between corporate governance systems and emphasize that observed changes are only minor and have no revolutionary effect on the underlying institutional structures (Hall & Gingerich, 2004).

Recently, however, research suggests a more appealing and nuanced approach to conceptualize corporate governance systems and to understand the processes of change within them. The core argument is that whether and at what speed convergence occurs is determined simultaneously by pressures for convergence and impediments to convergence (Aguilera & Jackson, 2003; Hoepner & Jackson, 2006; Jackson & Moerke, 2005; Khanna, Kogan, & Palepu,

2006; Khanna & Palepu, 2004; Yeung, 2006; Yoshikawa & McGuire, 2008; Yoshikawa & Rasheed, 2009; Yoshikawa, Tsui-Auch, & McGuire, 2007). This literature suggests that simultaneous processes of continuity and change might lead to the coexistence of alternative governance models within corporate governance systems, which then could result in hybridization whereby elements from stakeholder systems are being combined with elements of shareholder systems. Accordingly, this literature points out that the shareholder/stakeholder typology only fits partially with the variations of corporate governance around the world and acknowledges that there is no universally optimal corporate governance model. For example, although the U.K. and the U.S. have traditionally been lumped together in the shareholder model typology, Pendleton (2005) suggests that the U.K. may be somewhere between the continental European stakeholder model and the U.S. shareholder model. Also, Holderness (2009) finds that even in the U.S. widely dispersed ownership, which is a key characteristic of the shareholder model, is the exception and not the rule. These arguments and findings challenge the applicability of fundamental theories in the law and finance literature, ranging from Berle and Means (1932) to LaPorta, Lopez-de-Silanes, Shleifer, and Vishny (1998), which build upon the assumptions outlined in the above presented typology (Vitols, 2005b).

In recognizing the existence of diversity within corporate governance systems and the coexistence of processes of change and continuity, recent literature tends to conceptualize corporate governance as an element of a nation’s institutional framework in which institutions, that are defined as “[s]ocial structures that have attained a high degree of resilience” (Scott, 2001, p. 48), are confronted with functional, political, and social mechanisms of institutional change at the organizational and environmental levels (Greenwood & Hinings, 1996; Oliver, 1992). This perspective expands the traditional financial economics or agency theoretical approach to study

corporate governance (Berle & Means, 1932; Eisenhardt, 1989; Fama & Jensen, 1983; Jensen & Meckling, 1976), in which the objective of study is concerned with "… the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment" (Shleifer & Vishny, 1997, p. 737), to a more inclusive or open-systems perspective that is concerned with "… identifying the social relations and institutional arrangements that shape who controls corporations, what interests corporations serve, and the allocation of rights and responsibilities among corporate stakeholders" (Aguilera & Jackson, 2003, p. 447).

In figure 1 below, I present the above discussion visually and propose a discussion and research framework that integrates the abovementioned perspectives. The framework distinguishes between two interrelated levels of analysis: the national institutional level and the firm level.

In the convergence/divergence debate, the context of the national institutional level defines the regulative legitimate and legally sanctioned opportunities and constraints that condition the governance choices available to firms. Based upon the previous discussion, it is important to recognize that corporate governance systems are confronted with simultaneous pressures for and against change. On the one hand, economic globalization pressures increase the competition between nation states, legislatures, and stock markets, who seek to provide investor friendly law regimes, listing standards, and codes and regulations (Chey, 2007; Coffee, 2002; Licht, 1998). On the other hand, these pressures are constrained by structure- and rule-driven path dependencies (Lane, 2004). Thus, globalization may not necessarily lead to homogeneity and uniformity, but in fact lead to institutional complexity and an increase in the number of legitimate alternative organizational models from which firms can choose, which, in turn, can lead to an

increasing heterogeneity of governance arrangements within corporate governance systems (Greenwood, Raynard, Kodeih, Micelotta, & Lounsbury, 2011).

The convergence/divergence debate as “grand theory” at the systemic level is certainly informative in understanding the processes of change on the national institutional level. However, one of the reasons why this debate has been carried out in the polarized manner discussed before, might be that theorists have assumed that variation in the relevant change factors is smaller within than between countries, or, in other words, that globalization forces are homogenous and constant within countries (Deeg & Jackson, 2007; Tempel & Walgenbach, 2007). However, it cannot be assumed that all firms within countries are homogenous in their propensity to interpret and respond to national level pressures and in the way that they choose from the range of alternatives available to them (Dacin, Goodstein, & Scott, 2002). Pressures for corporate governance reform affect some firms more than others. Therefore, it is important to integrate the firm level of analysis into the debate. The proposed framework suggests that organizational attributes might reinforce, buffer, and translate (i.e., moderate as well as mediate) the macro level pressures of globalization on firm level responses and decisions regarding choice and design of corporate governance arrangements. A difficulty with drawing a model of change dynamics is that the model itself is depicted cross-sectionally. However, it is important to recognize that firm level change or resistance to change, which is depicted by the box “firm level strategic responses,” feeds back into the national level, the interfirm and the intrafirm level (i.e., the dotted lines in the framework). Three important feedback loops can consequently be distinguished in this model: First, although the state formulates the regulative and legally legitimate governance templates, regulative change at the national level often requires a consensus between the national political elites, who are concerned about national economic performance and accountability, and the

national corporate elites, who are concerned about their own firm (Gordon & Roe, 2004b; Yoshikawa et al., 2007). As such, the state is subject to the influence of individual firms' moves towards convergence because they inform the positions of corporate elites in the consensus finding process with the state. Second, firm level decisions regarding convergence to or divergence from a particular governance model feed back into firms' immediate social context and can influence decision making in related firms (Mizruchi, 1996). Third, a firm's past responses to pressures for governance reform also become an important part of its own internal decision environment, which in turn provides a stimuli for future decisions in the adoption and structuring of corporate governance practices (Cyert & March, 1963).

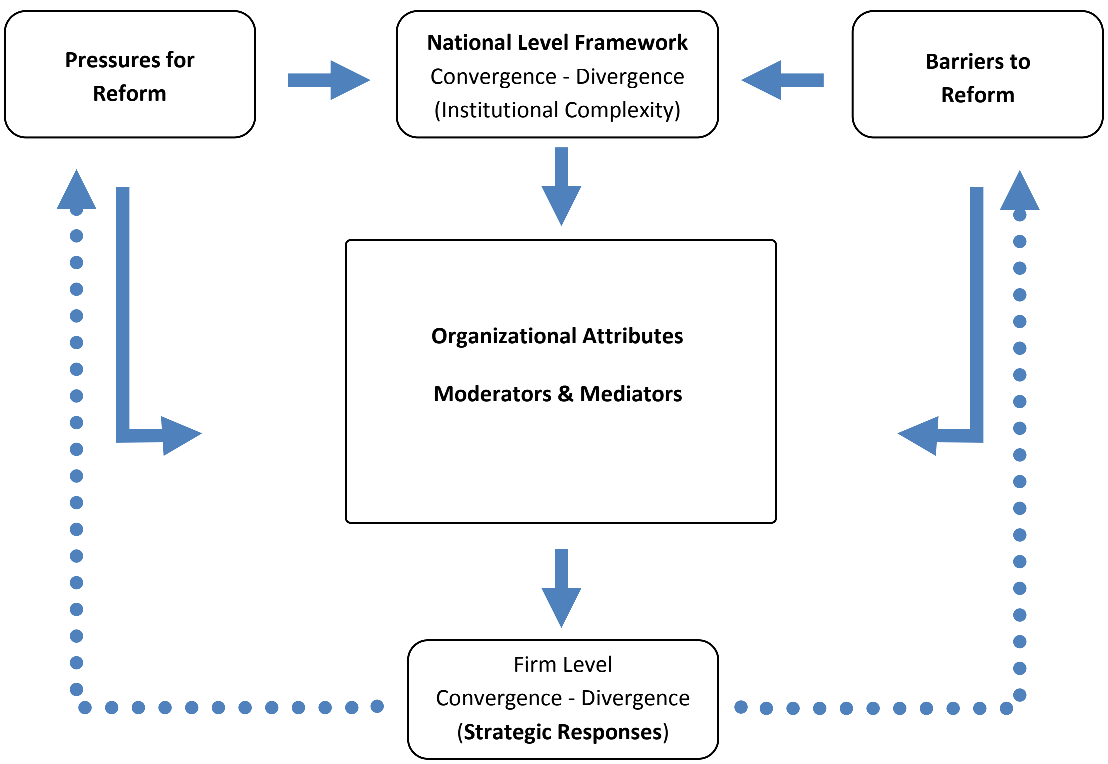


Figure 1: Convergence/Divergence in Corporate Governance – A Discussion and Research Framework for Understanding Firm Responsiveness to Corporate Governance Reform Processes

The framework presented in figure 1 suggests that for a more complete understanding of corporate governance reform processes both drivers of continuity and drivers of change at different levels of analysis need to be taken into account to explain the increasing institutional complexity, the proliferation of alternative legitimate governance models, and the increasing heterogeneity of firms' governance arrangements and response strategies to reform processes within corporate governance systems.

In sum, the broad research problem that this study addresses is to identify, explain, and predict the strategies firms use to respond to an increasingly heterogeneous corporate governance environment.

The next chapter of this study uses the framework presented in figure 1 as a guide to provide a review and critique of current research on corporate governance reform. Consequently, the following chapter is organized by level of analysis (i.e., systemic, interfirm, and intrafirm) of relevant studies. Building upon this discussion, the study summarizes and highlights existing gaps in the corporate governance reform literature and outlines the research agenda including specific research questions.

CHAPTER 2. LITERATURE REVIEW AND RESEARCH QUESTIONS

This chapter provides a review and critique of the convergence/divergence literature guided by the framework presented in figure 1. The framework suggests that the institutional context of a national corporate governance system – the systemic level – provides constraints as well as incentives for firms to structure their corporate governance arrangements. It also points out that firms are not simply institution takers as institutional theories, like the varieties of capitalism (VOC) paradigm (Hall & Soskice, 2001) suggests nor are firms black boxes that mechanically adjust to changing environments as convergence theories (Coffee, 1999) propose. The framework highlights the importance of understanding the agency of firms in dealing with path dependent pressures for continuity as well as pressures for change and reform. Specific firm attributes, and the strategies and interests of stakeholders interact with the institutional framework, which can moderate and mediate (i.e., reconfigure) pressures from the systemic level. Firm responses then feed back into the systemic, the interfirm, and the intrafirm levels. Further, the feedback loops, depicted in figure 1 (i.e., the dotted lines), also suggest that firms can favor governance arrangements that are in conflict and contradictory to the national institutional framework and consequently put pressure for change and reform on the systemic level, the inter- and intrafirm level. Thus, corporate governance reform needs to be understood as interrelated processes of trickle-down as well as trickle-up change (Djelic & Quack, 2003). Based upon this framework, the subsequent review distinguishes between two distinct yet interconnected levels of analysis: the national level and the firm level (intra- and interfirm levels). The study proceeds with a discussion of the corporate governance reform literature on the national level of analysis, followed by a review of research on the firm level of analysis. Based upon this review, the

subsequent chapter 3 summarizes and discusses areas to advance the current literature on corporate governance reform.

National Level Convergence/Divergence in Corporate Governance

According to convergence theory (Coffee, 1999; Hansmann & Kraakman, 2001), stakeholder oriented corporate governance is no longer sustainable under conditions of internationally integrated financial and product markets. Globalization leads to increased competition for capital and customers in global markets. To acquire the necessary capital resources, firms need to satisfy demands for high profit and share prices and, therefore, follow norms of shareholder orientation. Similarly, to successfully confront increased price competition in international product markets, stakeholder oriented firms have to adopt market-oriented corporate governance structures to lower costs and increase efficiency. As such, a market oriented model of corporate governance matches better the contingencies of the globalized capital and product markets, because it fits better to the market ideal. Convergence advocates argue that this holds for all firms, regardless of their institutional context. Generally, convergence theorists argue that the shareholder model of corporate governance has out-competed the stakeholder model. On the systemic level, the regulatory similarity in corporate governance between stakeholder and shareholder systems is often argued to be an indicator for corporate governance convergence (Chey, 2007; Coffee, 1999; Goergen, Martynova, & Renneboog, 2005). Indeed, corporate law has achieved a high degree of worldwide convergence. The core legal features that characterize corporations are essentially identical across systems. These are (1) full legal personality, (2) limited liability for owners and managers, (3) shared ownership by investors of capital, (4) delegated management under a board structure, and (5) transferable shares (Hansmann &

Kraakman, 2001). Beyond that, additional research pointed out that there is further regulatory convergence towards market oriented corporate governance and identified three important change agents that drive this process: National elites from the corporate, legal and political domains, institutional investors, and transnational organizations.

In many stakeholder systems of corporate governance, corporate, political, and legal elites increasingly accept shareholder value orientation as a legitimate ideology that guides business conduct. They translate their positions into corporate law reforms, which, through the political consensus finding process between these actors on the national level, can result in the convergence of corporate governance towards the Anglo-American standard (Boersch, 2007). For example, recent corporate law reforms in takeover regulation in several traditionally stakeholder oriented European economies provide evidence for a convergence trend towards the Anglo-American model (Cioffi, 2002). Most of these recent takeover regulations, which were promoted and backed by national elites, introduced or strengthened the one-share-one-vote principle, voting caps, mandatory bid rules, or squeeze-out rules, which are all mechanisms that are foundational characteristics of market based corporate governance systems (Goergen et al., 2005).

Besides national elites, another dominant force that pushes corporate governance regulation towards Anglo-American principles are international institutional investors such as the California Public Employees Retirement System (CalPERS) or the Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF). These powerful actors have been found to lobby for changes in the laws and regulations governing corporations in a variety of traditionally stakeholder oriented systems concerning various shareholder oriented issues such as the rules underlying the appointment of outside directors, the regulation of stock

option pay for management, or the election procedures of independent directors (CalPERS, 1999; Hoepner, 2001; Seki, 2005; Yoshikawa & Gedajlovic, 2002).

The third group of influential change agents on the national level includes transnational organizations like the Organization of Economic Coordination and Development (OECD), the World Bank, and the International Monetary Fund (IMF). These organizations have issued guidelines and codes for global standards of good corporate governance and promote them aggressively in affiliated countries (Jesover & Kirkpatrick, 2005; OECD, 2004; World Bank, 2001). As opposed to the struggling German and Japanese economies in the 1990s and their associated stakeholder models of corporate governance, the association of the U.S. and the U.K. shareholder models of corporate governance with the resurgence of their economies gave U.S. and U.K. central bankers and regulators special authority and expertise in these transnational organizations. Their traditionally dominant positions in these forums helped to increase the legitimacy of the shareholder value oriented model of corporate governance and associated best practices within these transnational organizations and put pressure to reform on other member states (Walter, 2008). As a result, many best practice guidelines and codes that are issued by these organizations contain a wide variety of traditional Anglo-American provisions regarding board composition, director and auditor independence, treatment of shareholders, executive compensation schemes, transparency in financial reporting and disclosure, among many other issues (OECD, 2004). These codes often provide the basis for the formulation of national corporate governance codes and consequently, drive the process of regulative convergence towards market oriented corporate governance (Collier & Zaman, 2005; Jesover & Kirkpatrick, 2005). The issuance of codes on the national level adds not only efficiency but also legitimacy to a country's corporate governance system (Zattoni & Cuomo, 2008). Indeed, corporate governance

codes have gained prominence in the past decade. By the end of the year 2011, codes had been created in more than 80 countries around the world (ECGI, 2011). The drivers behind the national level adoption of codes have been found to be positively associated with a country's degree of government liberalization, its degree of economic integration in international capital and product markets, the presence of foreign institutional investors, and the presence of a common-law legal system (Aguilera & Cuervo-Cazurra, 2004; Aguilera & Jackson, 2003; Haxhi & v.Ees, 2010).

The previously reviewed literature suggests that there is some evidence for convergence towards Anglo-American practices and policies on the national regulatory level of corporate governance. This change is argued to be mainly driven by two mechanisms: one that works through markets and one that is more actor centered and considers the role of change agents. However, globalization can also be interpreted as increasing interdependence between any pair of countries. Thus, convergence in governance regulation might also be driven by capital and product market integration between particular pairs of countries (Khanna et al., 2006).

Although the previously reviewed studies point towards convergence in corporate governance systems, emerging work in the comparative institutionalism literature has questioned the inevitability of convergence to market oriented corporate governance (Amable, 2003; Aoki, 2001; Boyer & Drache, 1996; Hall & Soskice, 2001; Maurice & Sorge, 2000; Whitley, 1999). A dominant perspective in the institutional approach is the varieties of capitalism (VOC) paradigm, developed in the field of political economy (Hall & Soskice, 2001). The VOC paradigm emphasizes continued divergence and institutional reproduction in corporate governance systems even under conditions of capital and product market globalization. It goes beyond a narrow focus on individual sub-spheres of national economies and emphasizes the concept of institutional complementarities (Tempel & Walgenbach, 2007). Institutional complementaries exist between

corporate governance and other sub-spheres of a macroeconomy, such as interfirm relations, vocational training, labor relations, product market regulation, and social protection. These interrelationships generate disincentives for radical change (Hall & Gingerich, 2004). The argument is that local actors attempt to preserve these complementarities and national institutional arrangements in order to protect synergies between these spheres that provide them with bases of competitive advantages. The differences in these complementarities give rise to two types of market economies: Liberal market economies (LMEs) like the United States, where relations between firms and other actors are coordinated primarily by competitive markets and coordinated market economies (CMEs) like Germany, where firms engage in more strategic interactions with other actors. Both LMEs and CMEs generate competitive firms but in different industries with a different organization. Firms will try to sustain their institutional advantages, which, under globalization pressure leads to a reinforcement of the characteristics of economies and corporate governance systems, rather than to their convergence. Research has presented empirical evidence that during the 1980s and the 1990s, LMEs and CMEs did not converge "dramatically" (Hall & Gingerich, 2004, p. 36) in their institutional structures with regard to corporate governance. Other empirical studies provide support for this finding and the VOC paradigm (Thelen, 2001; Wood, 2001). An important issue in CMEs is, of course, financial deregulation. The VOC literature recognizes that "… financial deregulation could be the string that unravels CMEs" (Hall & Soskice, 2001, p. 64) because of its potential to destabilize the whole system. For example, financial market deregulation in CMEs could lead to the exposure of local actors to shareholder demands, which could focus their attention on shareholder value, which could make it difficult to offer long-term employment, which could make it harder for them to sustain high degrees of worker loyalty, which could lead to changes in production etc. In this light, this being one of the

common criticisms of the VOC approach and the comparative institutionalism literature, it can be argued that complementarities can be in fact responsible for both persistence and transformation. Therefore, convergence between CMEs and LMEs might become a likely outcome (Boersch, 2007).

In sum, the preceding discussion suggests that countries that are exposed to and integrated in the globalized economy tend to adopt regulative features of the U.S. model of corporate governance. However, at the same time, the comparative institutionalism literature argues that these regulatory reforms may not lead to a radical or deep transformation of corporate governance systems because of a lack of supportive institutional complementarities and the resistance of actors and firm stakeholders embedded in these systems (Deeg & Jackson, 2007). Nevertheless, regulative reforms take place at the national level and thereby increase the number and heterogeneity of alternative corporate governance practices at the national level. Consequentially, the questions arise: How do firms respond to increasing institutional complexity? What drives the governance choice decisions of firms within the parameters of their national institutional framework? How and why (not) do national level pressures for convergence filter down to the firm level? These questions are important because they direct attention to the firm level of analysis, to the idea that firms might not simply be institution takers or black boxes, that there might be a possibility for diversity in subsystems within national systems, and that the conflicts between actors that go on inside corporate governance systems and firms might matter for how reform pressures are interpreted. An analysis of merely the systemic level based upon the VOC paradigm or related systemic perspectives like the business systems perspective (Whitley, 1992, 1999) and other comparative institutionalist approaches (Amable, 2003; Aoki, 2001; Boyer & Drache, 1996; Maurice & Sorge, 2000), falls short in providing answers to these questions

because they tend to view firms simply as institution takers. Also, comparative country level convergence studies often appear to assume that the variation in the determinants for convergence/divergence is greater between countries than within countries and that firms are black boxes that automatically adjust to changes in their environment (Goergen et al., 2005; Guillen, 2000; Schneper & Guillen, 2004). Both the VOC approach and convergence theory are essentially macrolevel theories. Although firm behavior is considered, they concentrate on the systemic level. Therefore, they miss important and nuanced dynamics that go on inside models of corporate governance and especially on the firm level. For example, even if research at the systemic level presents evidence for convergence, actors and processes at a lower institutional level might still champion consistency. A comparison of de jure and de facto convergence provides support for this argument. Khanna et al. (2006) find that although the integration in international capital, product, and labor markets had lead to de jure convergence and the adoption of common corporate governance laws and regulations in creditor and shareholder protection across their sample of twenty four countries, at the firm level this convergence of rules on the books did not transfer into de facto convergence in practice. Similarly, Zattoni and Cuomo (2008) compare civil and common law countries and find that the proliferation of codes of good governance in civil law countries is driven by the effort to legitimize domestic firms in the global financial market. They provide evidence that scope, coverage, and strictness of recommendations in civil law country codes lag behind common law countries. Further, in two qualitative studies, Collier and Zaman (2005) and Hopt and Leyens (2004) find that although the audit committee concept has become part of almost all national corporate governance codes in Europe, firms decouple in varying degrees the adoption of the concept from its use (e.g., firms set up an audit committee but it does not meet). These findings show that globalization may not be strong enough

of a force to overcome locally vested interests of powerful actors and that practices might only be fully adopted at the firm level when compatible with firm specific attributes, characteristics, and interests of powerful actors. This is consistent with the VOC paradigm, in that the absence of institutional complementarities needed to implement governance practices may prevent radical or deep change and thus prevent de facto convergence. The studies above point out that firms and other powerful actors within governance systems are responding in varying degrees to reform pressures. This responsiveness, however, may not be appropriately captured by an adoption/non-adoption or by a convergence/divergence dichotomy, rather these responses may often fall on a continuum, ranging from the defiance of pressures to the manipulation of sources of pressure (Oliver, 1991).

The previously reviewed research generally conceptualized firms' systemic corporate governance environment as exogenous. However, even if research finds no indication of convergence on the systemic level, firms and actors at a lower institutional level can put pressure for change on the national institutional level. This process is acknowledged in the discussion framework by the dotted lines in figure 1. For example, research on the transnational diffusion of corporate governance practices shows that firms might favor institutionally contested corporate governance practices and import them into their domestic institutional context (Sanders & Tuschke, 2007). Also, large multinational firms tend to be exposed to different contexts, one where national institutional arrangements are important, and others where international norms prevail. These firms are likely to be functionally autonomous from their domestic corporate governance system and less interested in the continuity of this system as they can draw resources from outside the system to recombine national and international practices (Mayer & Whittington, 1999). Similarly, in a study of corporate governance reform in Japan, Yoshikawa et al. (2007)

find that Sony's adoption of an Anglo-American governance innovation, did not only diffuse on the interfirm level via Sony's network of followers, but also put pressure on the Japanese Ministry of Justice to reform corporate governance on the national regulatory level, which in the end led to the coexistence of different regulatory legitimate systems within Japan. Another example is provided by Khanna and Palepu (2004) who find that the Indian firm Infosys lobbied the Indian government to allow companies to issue employee stock options, which was driven by an effort to retain international high potential human resources. In the context of corporate governance codes it can be observed that corporate elites become increasingly involved in corporate governance code commissions. For example, in Germany, DAX 30 (blue chip) executives such as Cromme, Achleitner, and Wiedeking were active members of the code commission and were involved in designing the German corporate governance code (Cromme, 2002a). These actors may have attempted to install and legitimize their approach to corporate governance in national codes, which put pressure for change on the national level.

These studies highlight again the importance of recognizing firm agency in the convergence/divergence debate. They point out that firms do not always take the systemic corporate governance environment as exogenous. Firms often have an interest in particular institutional arrangements and leverage resources to create new institutions or transform existing ones (Hardy & Maguire, 2008). Therefore, these studies point towards processes of "trickle-up change" (Tempel & Walgenbach, 2007, p. 15) where reforms are ratifying what had already taken hold at the firm level (Kleiner, 2003; Tainio, Huolman, Pulkkinen, Ali-Yrkkoe, & Ylae-Anttila, 2003).

The preceding review and discussion suggests that globalization in corporate governance might be best viewed as a double process of institutional change and institution building (Djelic &

Quack, 2003). Corporate governance reform needs to be understood in terms of the impact of firms on their institutional environment (i.e., the dotted lines from the bottom-up in figure 1) and with regard to the choices that firms make within the parameters of their national institutional framework (i.e., the solid lines from the top-down in figure 1). It also suggests that convergence pressures are not homogeneous and constant within countries and that firms have higher degrees of freedom than the VOC paradigm would predict. Therefore, it is important to recognize that the debate about corporate governance convergence is most usefully framed by including the firm level of analysis into theoretical and empirical models. Further, it also appears to be necessary to shift the focus of research from systems to corporate governance practices. Through this focus on the practice the degrees of resistance to convergence, the conflicts, the inconsistencies, and the preferences of powerful actors and firms within governance systems can be examined most appropriately (Fiss, 2008).

As depicted in the framework presented in figure 1, pressures for corporate governance reform affect some firms more than others. First, firms are exposed in varying degrees to international capital, product, and labor market pressures that potentially push them for reform. Second, firms are influenced in varying degrees by actors and stakeholders that control critical firm resources and influence decision making in firms. These actors differ in their identities, positions, strategies, and interests which affects how firms interact with their institutional environment and interpret pressures for reform. Third, a dynamic perspective on firm adjustment to reform pressures also needs to recognize that firms' change efforts feed back into their social context as well as into their own intraorganizational decision making environment. Therefore, it is important to address the dynamic effects of social structure as well as path dependent decision making on firm responsiveness to corporate governance reform. The three subsequent sections

review research that has examined how these three issues explain firm level variation in the accommodation as well as generation of institutional pressures for governance reform.

Firm Exposure to Global Capital, Product, and Labor Market Pressures

Scholars in law and corporate finance have traditionally argued that the globalization of capital, product, and labor markets increases pressures on firms to adopt shareholder oriented corporate governance principles and practices (Coffee, 1999; Hansmann & Kraakman, 2001; Jensen, 1993; Useem, 1998). With regard to the internationalization and integration of financial markets, researchers have focused on the effects of firms' interaction with capital markets in the major Anglo-American economies. Indeed, some research has found evidence that cross-listing via American Depository Receipts (ADRs) on U.S. stock exchanges or via Global Depository Receipts (GDRs) on the London Stock Exchange (LSE) is related to the adoption of shareholder value oriented practices such as executive stock options (ESOs), investor relation practices, nomination-, audit-, and remuneration committees (Bozec, 2007; Chizema, 2010; Chizema & Shinozawa, 2011; Khanna et al., 2006; Khanna, Palepu, & Srinivasan, 2004; Wojcik, Clark, & Bauer, 2005; Yoshikawa & Gedajlovic, 2002). When firms decide to list on U.S. or U.K. stock exchanges to access domestic financial resources, they are compelled to follow the U.S. Securities and Exchange Commission's (SEC) or the LSE's Listing Authority (UKLA) regulatory rules for market-oriented corporate governance (Coffee, 2002; Doidge, Karolyi, & Stulz, 2004). However, research shows that the SEC or the UKLA are lax in applying their domestic security laws and regulatory standards to foreign issuers (Siegel, 2005) and that foreign issuers can obtain exemptions from corporate governance listing requirements (Licht, 2001, 2004). For example, the SEC (form 20-F) permits foreign issuers to opt out of various disclosure requirements. In fact, it

has been recognized that the SEC has two securities regulation regimes: one for domestic issuers and one for foreign issuers (Licht, 2004). When the German company Deutsche Telekom listed on the New York Stock Exchange (NYSE) in 1996, the SEC's rules proved to be quite elastic and the SEC refrained from putting too much pressure on the company. Not even quarterly results and divisional breakdowns had to be published. The vice president of the NYSE stated that German practices and internal organization are good for German enterprises and that, therefore, no convergence in corporate governance systems needs to take place (Sueddeutsche Zeitung, 1996). The point here is that the coercive pressures on foreign issuers in this aspect of corporate governance can be weak and ambiguous. The pressures underlying the effects of these international listings on firms to adopt shareholder value oriented practices may also be normative and mimetic (Chizema, 2010; Sanders & Tuschke, 2007; Yoshikawa et al., 2007). For example, when firms list their stock in U.S. or U.K. equity markets they do not follow only the SEC's or the UKLA's rules, but executives of foreign issuers are also likely to get in direct contact with domestic executives who adhere to different governance practices and thus may begin to follow the normatively expected practices in these business environments to gain and maintain a status as legitimate market participants. Further, executives who are exposed to different practices abroad are provided learning opportunities about their legitimacy logic. When managers are exposed to practices in highly prestigious institutional environments, they may import these practices in their home environments, even when they are violating the domestic institutional logic (Sanders & Tuschke, 2007).

The international integration of capital markets, with the result of increasing cross-listings of firms, is only one aspect in the globalization of markets. Although there exists limited research, firms' exposure to international product market competition and the global labor market plays a

role in the convergence process as well. The economic argument underlying the effects of international or U.S. product market exposure is that firms that are involved in these markets incur higher transaction costs if their corporate governance arrangements do not conform to international best practices (i.e., U.S. standards) and, therefore, experience pressures for reform and adoption of these standards (Hoepner, 2001). From a financial economics perspective, product market competition functions as a disciplinary governance mechanism and as a supplement for the market of corporate control (Shleifer & Vishny, 1997). International competition is seen as a strong force for governance reform since, under the financial economics assumption of opportunistic managers, firms with stronger corporate governance (i.e., shareholder oriented governance) will capture the product market from a competitor with weaker corporate governance (Allen & Gale, 1998). However, similar to the arguments presented earlier, international product market competition can also drive convergence through normative and mimetic processes, because international product market rivalry brings managers in direct contact with others who adhere to shareholder oriented practices. Despite limited research, there is some empirical evidence that firms adopt shareholder oriented governance practices when they interact with international product markets (Bozec, 2007; Khanna & Palepu, 2004; Khanna et al., 2004).

There is also some evidence that the interaction with the international and U.S. labor market is associated with the adoption of shareholder value oriented governance practices. Research shows that firms that compete for human resources on the global labor market tend to adopt international best practices like stock option pay to attract human resources (Khanna & Palepu, 2004). Also, through increased international business travel, managers might carry home with them practices that they find effective in other environments (Bozec, 2007; Khanna et al., 2004).

The effects of capital, product, and labor market integration might be difficult to disentangle. For example, if a firm decides to invest in operations in the U.S. it is also likely to draw human resources from the U.S. labor market, to access the U.S. capital market for financing, and to interact with the domestic product market through local suppliers and customers. Nonetheless, research generally finds that firms' exposure to international capital, product, and labor market globalization, or, more specifically, the multimarket integration of firms in international markets, has an impact on corporate governance reform with regard to the adoption of shareholder value oriented practices in non-U.S. firms (Bozec, 2007).

The research outlined above has shown that the internationalization and integration of markets made the boundaries of corporate governance systems more permeable for the transfer of ideas from other institutional contexts and thus permitting variation and change. Resource dependence and institutional theory appear to be well suited to explain how shifting economic as well as institutional pressures, as a result of global market integration, lead to variation and change in firms' corporate governance arrangements within corporate governance systems. Indeed, the legal/financial economics perspective may be best characterized as implying resource dependence and institutional views. Resource dependence theory views the firm as an open system, dependent on environmental contingencies and external organizations (Pfeffer & Salancik, 1978). According to this perspective corporate governance functions as a means to actively manage external dependency (Pfeffer & Salancik, 1978), reduce environmental uncertainty (Pfeffer, 1972), and reduce transaction costs associated with environmental interdependency (Williamson, 1984). Therefore, a firm's corporate governance arrangements will reflect the external environment of the firm. As firms are exposed to international markets, corporate governance arrangements will be chosen to maximize the provision of important

resources to the firm. Institutional theory views the firm as consisting of cognitive, normative, and regulative structures and activities that give meaning to social behavior (Scott, 1995). Institutional constituents impose coercive, normative or mimetic influence on the firm and corporate governance practices can be adopted for the sake of legitimacy rather than improved performance (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). Therefore, over time, firms' corporate governance reflects rules, norms, and beliefs that are institutionalized and legitimized by their social environments. Resource dependence theory and institutional theory are complementary (Greenwood & Hinings, 1996; Oliver, 1991) and they have the potential to link the financial economics perspective and the strategic management perspective on corporate governance reform.

Although the above reviewed studies have contributed to a better understanding of why firms may adopt shareholder value oriented practices, they have also shown that firms' exposure to the pressures of international product, capital, and labor markets may not always lead to convergence to shareholder oriented standards. Ultimately, how these pressures are moderated and mediated and whether firms shift to alternative governance practices may depend on the interests, identities, positions, and strategies of powerful firm actors who control critical firm resources and who influence decision making in firms (Aguilera & Jackson, 2003; Fiss, 2008; Fiss & Zajac, 2004). The literature reviewed so far has not addressed this issue. Therefore, the following section discusses research that examines the role of powerful firm stakeholders in governance reform.

The Interests of Powerful Firm Stakeholders

The diffusion of shareholder value oriented practices is not solely driven by "impersonal" market forces that financial and legal scholars emphasize in convergence studies. Several articles reviewed in the previous section suggested that pressures for reform might only filter down to the firm level if supported by and in line with the interests of powerful actors. A sociopolitical perspective on governance reform recognizes that stakeholders, that control critical firm resources and influence decision making in firms, may differ in their identities, positions, strategies, and interests, which consequentially shape firms' interactions with the institutional environment (Fiss & Zajac, 2004; Meyer & Hoellerer, 2010; Sanders & Tuschke, 2007; Yoshikawa & McGuire, 2008; Yoshikawa et al., 2007). Whether firms shift from one governance model to another may depend on the power and interests of different stakeholder groups. Research that espouses this perspective typically accepts a definition of corporate governance that goes beyond the narrow legal-contractarian and financial-economics view (Fama & Jensen, 1983; Jensen & Meckling, 1976; Shleifer & Vishny, 1997) and defines corporate governance as being concerned more with the "… relationships among stakeholders in the process of decision making and control over firm resources" (Aguilera & Jackson, 2003, p. 450). This perspective then highlights issues of politics, power relations, contestation, resistance, and negotiation among the key firm stakeholders - capital, labor, and management (Fiss, 2008; Fiss & Zajac, 2004).

In this actor centered perspective, the stakeholder group capital is often conceptualized as a heterogeneous set of actors with varying identities, interests, motivations, and strategies that pertain to their shareholdings in firms. These characteristics can translate into different governance orientations and preferences (Ahmadjian & Robbins, 2005; Fiss & Zajac, 2004; Frick & Lehmann, 2005; Gedajlovic, Yoshikawa, & Hashimoto, 2005; Jara-Bertin, Lopez-Iturriaga, &

Lopez-de-Foronda, 2008; Pursey, Heugens, van Essen, & van Oosterhout, 2009; Thomsen & Pedersen, 2000; Yoshikawa & Gedajlovic, 2002). This perspective contrasts with the financial economics view in that it recognizes that corporate owners are not a homogenous group interested solely in maximizing shareholder value. For example, Anglo-American institutional investors are increasingly investing in companies in markets around the world. Their clients expect them to maximize their capital investment. As such, these investors are expected to push firms to prioritize share price and market oriented governance practices. The rise of these international arm's length investors has been associated with convergence pressures towards an Anglo-American model of governance (Useem, 1996, 1998). This actor centered perspective, emphasizes how the interests of capital providers are constructed and how their interests are then translated into actions via processes of decision making and control over firm resources. The same logic applies for established, as well as, emergent capital providers such as corporate owners, banks, insurance companies, the government, and families. Their power and interests highlight the importance of the role of coercion in how global and national level pressures for governance change might filter down to the firm level (Pfeffer & Salancik, 1978). Naturally, resource dependence theory and institutional theory are complements to this perspective. As argued before, corporate governance systems may be less tightly coupled than the VOC perspective suggests and resource dependencies on different stakeholders can make firms recipients of alternative ideas and templates of corporate governance. Institutional theory then suggests that both the stakeholders involved and their interests are institutionally constructed, which, in turn, influences how pressures for reform are interpreted and implemented on the firm level (Aguilera & Jackson, 2003; Fiss, 2008).

Other research has focused on how the stakeholder group top managers, as the strategic leaders of firms, influence corporate governance reform (Fiss & Zajac, 2004; Hoepner & Jackson, 2006; Khanna & Palepu, 2004; Sanders & Tuschke, 2007). Much of this research draws from upper echelon theory (Hambrick & Mason, 1984). In this view, firms are perceived to be importantly influenced by the values, preferences, and experiences of their top managers (i.e., the upper echelons). In essence, top managers make decisions and take actions that are in accord with their personal preferences, backgrounds, and biases. Because of the decisions they make, the corporate governance arrangements of their firms reflect their personalities, values, and beliefs. Demographics such as age, tenure, educational background, and functional background play a prominent role in the upper echelons model. Demographics, which can also be institutionally constructed, are used as measures of unobservable constructs like values, experiences, cognitive models, and other psychological factors that may importantly influence decision behavior. The heart of the model begins with the filtering process, describing how the decision maker's psychological makeup directs attention toward particular stimuli and away from others. In effect, decision-maker "givens" (e.g., knowledge, preferences, values, and biases) limit the field of vision and how environmental and organizational pressures for governance reform are interpreted and acted upon. Indeed, based upon this framework research has found that where governance practices and strategies are compatible with the educational background and associated mental models of executives, they are more likely to be adopted in their firms. For example, CEOs with educational backgrounds in economics, law, or business have found to be more likely to support and adopt shareholder value oriented practices, even in cultural contexts with traditionally greater emphasis on long-term productionist values (Fiss & Zajac, 2004; Hoepner & Jackson, 2006; Sanders & Tuschke, 2007).

Aguilera and Jackson (2003) identify labor/employees as the third major stakeholder group relevant to corporate governance. The stakeholder group labor is largely ignored in the corporate governance literature, which is reflective of the weak influence of firm internal employee participation in the U.S. and the treatment of labor as an exogenous factor in agency theory (Aguilera & Jackson, 2003). This lack of attention is particularly relevant in that labor participation plays a politically important role in many corporate governance systems such as Japan or Germany. For example, the European Union has repeatedly shown its commitment to the European Social Model, in which labor should enjoy strong rights of participation, consultation, and information in corporate governance (Kluge, 2005). It can be expected, similar to the arguments made above, that the interests, values, and motivations of labor/employee representatives have effects on the acceptance or rejection of governance innovations in firms. Moreover, the power of labor in controlling firm resources and influencing decision making in firms is often reinforced by ties to union representatives that bring into the internal decision making environment of firms external interests of associated stakeholders such as governments or political parties (Hoepner & Muellenborn, 2010a; Werner & Zimmermann, 2005).

How the three before mentioned stakeholder groups mediate and moderate (i.e., interpret) reform pressures emanating from convergence processes in financial, product, and labor markets have been examined through the lenses of sociopolitical, institutional, resource dependence, and upper echelon theories. Although those theoretical perspectives recognize that firm stakeholders negotiate with their environment over the introduction of shareholder value oriented practices, they do not explicitly address negotiation processes between the groups of actors. Recently, translation theory has been used to complement these perspectives in this aspect (Buck & Shahrim, 2005). Translation theory suggests that depending on the nature of the practices,

practices will be adjusted and transformed to suit legitimate interest groups. Actors shape and give direction to innovations in a way that reflects their own role, intentions, interests and context (Meyer & Hoellerer, 2010; Vitols, 2004). A prime example of how typical shareholder value oriented governance practices are translated, transformed and customized through a negotiation process between stakeholders is Vitol's (2004) qualitative study about the implementation of ESOs at the German Schering AG. He showed that the implementation of ESOs and their eventual design was shaped by the demands of international institutional investors, the interests of work councils, and participating bank directors on the supervisory board. He found that upon implementation, the ESO program had acquired some very un-American features, reflecting the interests of different groups. It was extended to a larger number of management board executives, involved smaller proportions of firms' total capital under option, and had qualitatively more demanding performance indicators than comparable schemes in the U.S. Certain floors and ceilings were also imposed on the scheme when received by employees. While certainly not all governance practices are subject to bargaining and negotiation processes leading to translation and customization, this research points out that zero/one (i.e., adoption/non-adoption) measures in governance reform studies might not truly capture the underlying translation and stakeholder negotiation processes. Research in institutional theory that concerns itself with variation in the diffusion of practices has long recognized this issue (e.g., Lawrence & Suddaby, 2006; Lounsbury, 2007). In the corporate governance reform literature, only a few studies have examined the negotiation process between stakeholders and its effect on the modification of practices (Buck & Shahrim, 2005; Vitols, 2004).

In sum, research that takes a more actor oriented perspective and addresses how reform pressures are interpreted by powerful firm actors, provides a more comprehensive picture of the

diffusion process of shareholder value orientation. In returning to the discussion framework in figure 1, it is important to recognize that the model suggests two feedback loops at the firm level. After firms have made their choice regarding governance reform, firms' responses become inputs in their social and relational environment as well as in their intraorganizational decision making environment. The following section reviews research that addresses these dynamic processes.

Firm Level Feedback Loops

A dynamic perspective on firm adjustment to governance reform pressures needs to recognize that firms' responses to pressures for change feed back into their social context as well as into their own intraorganizational decision making environment. Therefore, it is important to understand the dynamic effects of social structure as well as path dependent decision making on firm responsiveness to corporate governance reform.

On the interfirm level, firms' actions become inputs in their social and relational environment and inform reform decisions in other firms via interlocking directorates. Social network theory is commonly invoked to understand the effects of the interlocking directorate. Research that draws from this perspective recognizes that firm actions are embedded in social networks and that the patterns of connectedness and relationships affect the behavior of network actors (Davis, 1991; Granovetter, 1985; Mizruchi, 1996). Institutional theory provides a complementary perspective in that it suggests that the imitation of practices across interlocked firms follows coercive, normative, and mimetic pressures (Haunschild & Beckman, 1998; Rao & Shivakumar, 1999). Additionally, resource dependence theory suggests that director interlocks can help firms to deal with uncertainty and to manage complexity by scanning the business environment and sharing advice (Pfeffer & Salancik, 1978). The research findings regarding the

effects of interlocking directorates on the spread of market oriented practices in stakeholder systems are mixed. For example, Sanders and Tuschke (2007) find that board interlocks facilitate the diffusion of ESOs in Germany. In contrast, Fiss and Zajac (2004) do not find any effects of interlocks on the diffusion of shareholder value oriented practices such as ESOs, U.S. Generally Accepted Accounting Principles (GAAP) and International Accounting Standards (IAS), and value based management systems in the same context. These inconclusive findings might indicate that although network ties can facilitate the diffusion of information about practices, the mere availability of information via interlocks about alternative governance practices is not always sufficient to trigger actual implementation. Although network ties can be sources of various isomorphic pressures, those pressures might not be interpreted as equally strong or important by all firms. The receptivity of firms for alternative practices and their underlying logic might be as important as their relationships and ties with other firms within their social network. Social pressures via network ties might be differently interpreted, given meaning, and responded to by actors within firms (Dacin et al., 2002; Yoshikawa et al., 2007).

The processes underlying the second feedback loop might help to predict the direction of change induced by these and other deinstitutionalization pressures. Figure 1 suggests that a firm's response to reform pressures becomes an input not only in its external institutional environment but also in its internal decision making environment. This can lead to "normative fragmentation" (Oliver, 1992, p. 575) or an alteration of firms' "value commitments" (Greenwood & Hinings, 1996, p. 1035), which in turn can bring alternative sets of issues and solutions to the attention of decision makers in firms, and consequently influence in which direction the firm changes (Cyert & March, 1963; Ocasio, 1997). Previous research has pointed out that the adoption of shareholder value oriented practices by firms in the past increases the likelihood of adoption of similar

practices in the future (Chizema, 2010; Sanders & Tuschke, 2007). Theoretically, a firm can become committed to an institutional logic (i.e., shareholder value orientation) by implementing practices from this logic. This can subsequently form the firm's local dominant logic that, in turn, guides the evaluation and implementation of compatible practices available in its environment. Therefore, routines that are established through intraorganizational learning from previous actions with regard to governance reform can block or foster the adoption of shareholder value oriented practices (Levitt & March, 1988; March, 1981; Prahalad & Bettis, 1986). The routines underlying firms' continued deviance from a particular governance logic as well as firms' continued commitment to their traditional governance model may account for the processes underlying the increasing heterogeneity in firms' corporate governance arrangements within national systems of corporate governance (Guillen, 2001; Hoepner, 2001; Jackson & Moerke, 2005; Yoshikawa et al., 2007).

Up to this point, the review discussed potential drivers of corporate governance reform and convergence processes on the systemic, the interfirm, and intrafirm levels. If these processes should indeed lead to a convergence of stakeholder oriented firms to the Anglo-American model of corporate governance (i.e., the principal agent model), then there should be evidence that reforms also have an impact on shareholder wealth creation (Yoshikawa & Phan, 2003). The concept of shareholder value is derived from agency theory (Fama & Jensen, 1983; Jensen & Meckling, 1976). Agency theory builds upon the notion that the separation of ownership and control leads to self-interested actions by those in control. According to the theory, effective corporate governance is structured to incentivize and monitor agents to act in the interest of their principals, who are assumed to maximize firm profits and market value. If shareholder wealth creation is not impacted by governance reform and the data do not fit the principal-agent model,

this would support the argument that the consideration of multiple theories in evaluating governance reform may lead to a more complete understanding of the subtleties which characterize the processes underlying the framework depicted in figure 1.

The Effects of Corporate Governance Reform on Shareholder Wealth Creation

Several studies applied the framework to study the relationship between the adoption shareholder value oriented practices and firm performance in various corporate governance systems outside the Anglo-American context. The empirical findings derived from studies in Germany (Beyer & Hassel, 2002; Bress, 2007; Nowak, Rott, & Mahr, 2005; Tuschke & Sanders, 2003), Japan (Aoki, 2004; Gilson & Milhaupt, 2005; Miwa & Ramseyer, 2005; Yoshikawa & Phan, 2003), Mexico (Machuga & Teitel, 2007), Spain (Fernandez-Rodriguez, Gomez-Anson, & Cuervo-Garcia, 2004), and Portugal (Alves & Mendes, 2004) are inconclusive. In some studies, the adoption of practices and policies such as ESOs, U.S. GAAP/IAS, board committees, an increase in outside directors, or the separation of executive officers and board members are associated with higher levels of firm performance, whereas in other studies, even within the same context, these practices do not have a performance impact. Additionally, the applicability of agency theory even in the context of the U.S. has been challenged (Dalton, Daily, & Certo, 2003; Dalton, Daily, Ellstrand, & Johnson, 1998; Holderness, 2009). Overall, these inconclusive findings support the previous observation that corporate governance models and structures may not be on a linear path towards full convergence to a principal-agent model. Since the principal-agent model to a large extent does not fit the data in many of the above cited studies, research may benefit from an expansion beyond agency theory and a consideration of alternative

theoretical frameworks in studying corporate governance reform (Aguilera & Jackson, 2003; Fiss, 2008).

In sum, applying the research and discussion framework presented in figure 1 to extant research on corporate governance reform provides support for the proposition stated initially that "… the evolution of corporate governance is more complex than a simple convergence-divergence debate" (Yoshikawa & McGuire, 2008, p. 16). Indeed, the reviewed literature does not support the "end of history" prediction of convergence advocates (Hansmann & Kraakman, 2001) nor does it support the competing "perpetual acceleration [of history]" prediction of divergence advocates (Charny, 2004, p. 173). Instead, the reviewed body of research suggests that the most likely outcome of the discussed convergence/divergence dynamics might be an increasing heterogeneity in systems of corporate governance and in firms' strategies how they structure their corporate governance arrangements. Based upon this review, the subsequent paragraphs highlight gaps in the literature and formulate appropriate research questions.

Research Questions

The review of the corporate governance reform literature in the previous section brought up several issues that call for more detailed research. Below, five of these interrelated issues are discussed and used as bases to formulate the specific research questions for this study.

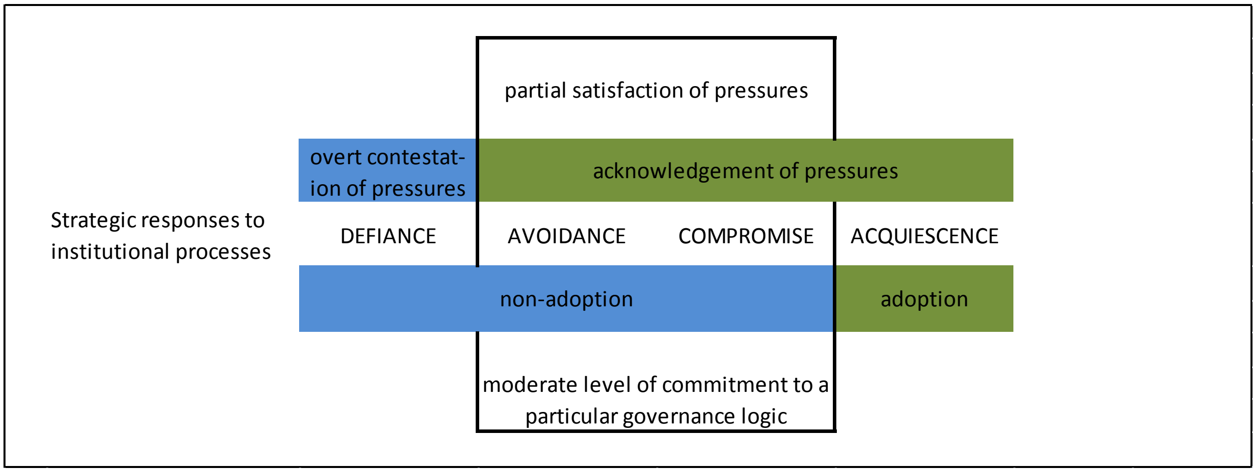
First, as discussed above, the worldwide diffusion of codes of good corporate governance is a contemporary phenomenon that is driving the complexity and heterogeneity within corporate governance systems (ECGI, 2011). Corporate governance codes can principally be distinguished from hard law in that they are formally non-binding, essentially self-regulatory and voluntary in nature. Generally, codes build upon the comply-or-explain principle, under which only the

disclosure of non-compliance is mandatory (OECD, 2002). The flexibility of the comply-or-explain mechanism is the most important feature of the so-called soft law compared to the hard law of, for example, the U.S. Sarbanes-Oxley Act (ECGF, 2006). Codes reflect the tolerance of firm specific characteristics and allow firms to make use of the explain principle and deviate from code provisions. As such, codes stand in contrast to hard law that effectively supposes that one governance model or practice fits all firms. As highlighted in the review, codes play an increasingly important role in a variety of countries as tools to increase firm transparency and accountability (Bianchi, Ciavarella, Novembre, & Signoretti, 2010; Haxhi & v.Ees, 2010). These codes, which are carriers of many Anglo-American shareholder value oriented practices are often issued with the backing of legislators and increase the number of regulative legitimate governance alternatives for firms in various corporate governance systems (Cromme, 2005; Peng & Pleggenkuhle-Miles, 2009; Walter, 2008; Yoshikawa & Rasheed, 2009). Despite their widespread application, the review above suggests that "… very little is known about how they function in practice" (Seidl, Sanderson, & Roberts, 2009, p. 3). As discussed above, this gap stems from the fact that most current studies on corporate governance codes focus on the national level of analysis or provide descriptive accounts of how firms react to the issuance of codes (Collier & Zaman, 2005; Sanderson, Seidl, Roberts, & Krieger, 2010; von Werder & Talaulicar, 2010; von Werder, Talaulicar, & Pissarczyk, 2010; Zattoni & Cuomo, 2008). As such, this study responds to recent calls for more theory-based research regarding the drivers of adoption and diffusion of code provisions within countries (Aguilera, Cuervo-Cazurra, & Kim, 2009; Haxhi & v.Ees, 2010). The research reviewed above suggests that the study of corporate governance reform provides an appropriate field for applying institutional theory. An institutional perspective views corporate governance reform as institutional change and provides a framework for understanding

the implications of social embeddedness, power, conflict, and resistance to reform efforts. In brief, it takes a holistic and socially informed view of actors and firms. This study will take an institutional perspective to explain and predict how firms respond to soft law regulation.

Second, the review above suggests that firms that do not acquiesce to governance reform pressures may not be a homogeneous group with regard to the strategies they use to resist these pressures. This suggests that there might also be variance in how firms make use of the deviance option of codes. However, very little is known about how firms make use of this option (ECGF, 2006; Sanderson et al., 2010). This gap stems from the tendency in extant research to treat non-adopters of code provisions undifferentiated (Chizema, 2008; Laan, 2009; Nowak, Rott, & Mahr, 2006; Ringleb, Kremer, Lutter, & von Werder, 2004; von Werder & Talaulicar, 2008, 2009, 2010; Werner & Zimmermann, 2006). This issue reflects the treatment of non-adopters of shareholder value oriented practices in the previously reviewed literature. Although a few studies empirically examined the decoupling of practice adoption and practice use (Fiss & Zajac, 2006; Fiss & Zajac, 2004; Westphal & Zajac, 2001) and some qualitative studies examined the translation of reform pressures on practice adoption (Buck & Shahrim, 2005; Yoshikawa et al., 2007), firm responses to corporate governance reform pressures are commonly conceptualized as binary choices. Adoption is usually interpreted as a sign for convergence and non-adoption as a sign for continued divergence from new models of corporate governance (i.e., shareholder value oriented models) (Bozec, 2007; Chizema, 2008, 2010; Chizema & Shinozawa, 2011; Khanna et al., 2004; Sanders & Tuschke, 2007; Tuschke & Sanders, 2003; Yoshikawa & Gedajlovic, 2002; Yoshikawa & Rasheed, 2009). As argued before, this issue results from the theoretical assumptions underlying the majority of studies that firms (and national systems) either converge or diverge in corporate governance. However, figure 2 below shows that for theoretical reasons it

is important to account for heterogeneity among non-adopters, because within this group firms may pursue a wide range of strategies, ranging from outright defiance to compromising on reform pressures (Oliver, 1991).



Source: Adapted from Oliver, 1991

Figure 2: Heterogeneity in the Non-Adopter Category of Reform Practices

As shown in figure 2, firms' response strategies might indicate different degrees of rejection (or acceptance) of prevalent institutional processes. Consequently, this study will attempt to identify these strategies, which will allow for a more sensitive analysis of firm responsiveness to reform pressures compared to the common adopter/non-adopter dichotomy.

Third, the above reviewed literature suggests that there is need to study the properties and field positions of actors that lead corporate governance reform initiatives and the strategies they use to bring about change. Some research has addressed the qualities and characteristics of firms that initiate institutional change (Sanders & Tuschke, 2007; Yoshikawa et al., 2007), however, the question, "What is the role of institutional entrepreneurship in promoting diversity and change in corporate governance?" (Yoshikawa & McGuire, 2008, p. 20) needs further exploration. Codes are promulgated by a variety of actors such as (quasi-)governmental agencies,

manager-, director-, professional-, or investor associations, who are interested in particular institutional arrangements (Aguilera & Cuervo-Cazurra, 2004). This study therefore addresses these actors' intervention strategies and examines how firms respond to institutional entrepreneurship.

Fourth, the review above shows that there are only a few published studies that examine processes that limit and slow down corporate governance reform. The fact that we know little about the limitations of corporate governance reform stems from the tendency in research to focus on the successful diffusion of shareholder value oriented practices. Neglecting to study these processes can lead to what the diffusion of innovations literature has termed a "pro-innovation bias" (Rogers, 2003, p. 110). Such a pro-innovation bias is a troublesome issue in this area of research because it can lead scholars to systematically underestimate the difficulties by which convergence and change in corporate governance occurs. However, as pointed out in the framework presented in figure 1, a more complete understanding of corporate governance reform requires addressing the competing influences of both, drivers of institutional change and drivers of institutional stability. Addressing the firm level processes underlying limited diffusion might hold important implications to understand the stability of institutions. Therefore, this study will in particular address inter- and intraorganizational processes that have suppressive effects on firms' responsiveness to corporate governance reform processes.

Fifth, and related to the previous point, it is important to differentiate between firms according to their timing of using certain response strategies. The above review suggests that firms may have different reasons for acquiescing early or late to institutional pressures. An examination of the determinants that influence the timing of firms' response to governance reform

initiatives can contribute to our understanding of the dynamic processes that speed up and facilitate or slow down firms' acceptance of alternative models of corporate governance.

In sum, while the introductory chapter formulated the broad research problem for this study as to identify, explain, and predict the strategies firms use to respond to an increasingly heterogeneous corporate governance environment, the review of the extant literature in the light of the research problem lead to the formulation of the following specific research questions: How do firms respond to the issuance of a national corporate governance code that increases pressures to conform to shareholder value oriented corporate governance practices? What are the driving factors underlying firm responsiveness to these pressures? Do these factors have asymmetric effects on firms' choice to acquiesce to reform pressures early or late?

Up to this point the study introduced the thesis topic, reviewed extant literature, and outlined the research questions of interest. The remainder of this study is structured as follows: Chapter 3 introduces the empirical context of this study. Chapter 4 develops a theoretical framework to study the research questions. Chapter 5 describes the analytical approach to test the formulated hypotheses. Chapter 6 tests the hypotheses and reports the results. Finally, chapter 7 concludes the study with discussing the results, outlining contributions and limitations of the study, and providing avenues for future research.

CHAPTER 3. THE EMPIRICAL CONTEXT: CORPORATE GOVERNANCE IN GERMANY

Germany, the largest national economy in the European Union (Deutsche Bundesbank, 2011), is used as the context to study the research questions outlined above. This chapter first offers a primer on the German corporate governance system and its key institutions. Then, the paper proceeds with a description of the most important institutional changes that have occurred since the mid 1990s, when the logic of shareholder value began to spread among German firms. Finally, the German corporate governance code is placed in the context of these institutional changes.

The Central Institutions of Corporate Governance in Germany

The most important aspects of the traditional German corporate governance system are internal control mechanisms, a two-tier board system, bank based finance, concentrated ownership with substantial cross-holdings, a company centered and productionist management ideology, and a regulative/legal framework that defines the firm as "… a constitutional construction for structuring a process of ongoing negotiation among different groups within the firm" (Ziegler, 2000, p. 196). The following sections highlights the complementarities between the key institutions of the German corporate governance system.

The Codetermined Two-Tier Board

This study concerns itself with the organizational form of the publicly traded corporation (i.e., the "Aktiengesellschaft" or the "AG"), whose shares are traded on the Frankfurt Stock Exchange. By law, three institutions are required for AGs. These are the management board, the supervisory board, and the general meeting (Du Plessis, 2004).

The general meeting is responsible for appointing the members of the supervisory board (i.e., the shareholders' representatives), unless codetermination law mandates the appointment of some of these members by employees. The codetermined supervisory board is one of the distinct features of German corporate governance. The codetermination law of 1976 entitles employees in AGs with more than 2,000 employees to half of the supervisory board seats. For corporations with 500 – 2,000 employees, the law requires that labor receives one-third of the seats. Labor representation is optional for firms with less than 500 employees. Beyond that, the codetermination law also specifies board size and election procedures (Du Plessis, Grossfeld, Luttermann, Saenger, & Sandrock, 2007).

The responsibility of the supervisory board is the appointment, removal, and remuneration of the management board and it also has the right to provide the management board with advice. The position of the chairperson of the supervisory board is important, since that person is expected to be in constant and close contact with the management board (Gerum, 2007; Gerum & Debus, 2006). The chairperson is responsible for preparing the minutes of the supervisory board meetings and has in certain instances a casting vote. He/she is expected to take action if the company experiences performance problems and he/she might ask for a replacement of members on the management board. It is through this position that there is a continuous relationship between the two boards (notwithstanding the fact that most supervisory boards meet only three of four times a year (Beiertz, 2004)).

According to the stock corporation law (AktG77/1), all members of the management board are collectively responsible for directing and managing the business of the AG. Technically, there exists no Chief Executive Officer (CEO) position in a management board that would confer the right of command over the other members in this institution. In practice,

however, nearly all AGs elect a speaker or chairman of the management board, who is then commonly referred to as a "CEO". "CEO" is an Anglicism that has diffused widely in the German language. However, the fact that most speakers or chairmen of management boards are called "CEOs" does not annul the collective responsibility of the management board. This person then has the responsibility to set the agenda for the board meetings (and can change it ad hoc), holds a casting vote in decision making, and in some instances can legally represents the AG when dealing with stakeholders (Hopt & Wiedemann, 2003). It is important to note here the existing complementarities between these structural board characteristics and the management ideology in Germany, an institutional variable which the following section describes.

A Productionist and Company-Centered Management Ideology

The German corporate governance system builds upon a productionist, company-centered management orientation of top management. Lawrence (1980) provides an insightful account of the traditional managerial ideology of German executives: "The somewhat "de-economised" view which German managers have of the business enterprise is central. The idea that a firm is not a "money-making machine" but a place where products get designed, made and eventually sold, with profits ensuing, tends in Germany to restrict the allure of accountants and financial controllers and to dignify the makers and those associated with them" (Lawrence, 1980, p. 131). This world view is influenced by managers' educational background that traditionally places strong emphasis on *Technik*. German top managers typically hold doctoral degrees in technical fields such as mathematics, engineering, physics, and chemistry. Therefore, they tend to adopt a corporatist view of the firm in which the pursuit of financial interests like shareholder value maximization is secondary to a more functional productionist orientation (Hoepner, 2001;

Hoepner & Muellenborn, 2010b; Juergens, Naumann, & Rupp, 2000a). The legal principle of collegiality in German boards discussed above encourages the development of managers' commitment to intraorganizational relationships and constituents and supports this long-term productionist orientation. Complementary to this company centered management orientation is the relatively closed labor market for senior managers in Germany (Dore, 2000). A significant number of managers rise via apprenticeships and extensive job rotation programs through the ranks of their firm's internal labor market into top positions (Dore, 2000). This internal promotion system leads to relatively large boards so that firms can integrate a large number of managers in the internal promotion system. My data shows, that in the year 2008, on the average, the management board of the thirty largest stock exchange listed firms (DAX 30) counted 7 members and the average number of directors on the supervisory board was 20. Additionally, the closed labor market has a limiting effect on the internationalization of management and supervisory boards. My data also shows, that in the year 2008, merely 15 % of all members of DAX 30 management and supervisory boards were foreigners. These key features of German managerial ideology and the complementary structural board characteristics can be interpreted as a requirement for the long term relations that senior managers enjoy with their suppliers, customers, banks, and other corporations, an issue which will be discussed in the subsequent section.

Concentrated Ownership and Cross-Holdings

In most German AGs ownership and control are concentrated (Boersch, 2007). Franks and Mayer (2001) show that 50 % of AGs have an owner who is holding more than 50 % of the outstanding equity. They show further that 80 % of AGs have a large blockholder who controls more than 25 % of the voting rights, which, according to corporate law implies that these

blockholders enjoy a blocking minority. Additionally, Becht and Boehmer (2003) find that the largest shareholder rarely faces other large minority shareholders, as the average size of the second largest block is small (~ 7 %). Also, only 20 % of AGs have more than two registered blockholders. In this context, the identity of owners (i.e., the location of control rights) is important to understand the relationship of owners with the firm. A standard assumption in the financial economics literature is that owners want the company to maximize profits and market value (Fama & Jensen, 1983; Jensen & Meckling, 1976). However, different types of owners might have different interests, time horizons, and strategies with regard to the ways they want to control a firm's resources and influence firm decision making (Aguilera & Jackson, 2003). There is a possibility that principals have objectives other than profit maximization (Lehmann & Weigand, 2000; Thomsen & Pedersen, 2000). Table 1 below shows the distribution of voting blocks larger than 5 % among the most prevalent types of block shareholders of German AGs by the end of 2005.

Traditionally, the three most important blockholder types have been corporate owners, individuals and families, and banks and insurance firms. These owner types may vary in the degree to which they pursue minority shareholder interests.

Corporate ownership is a defining characteristic of the German business system (Whitley, 1992). These owners might be more interested in maintaining a stable relationship with business or alliance partners and might likely emphasize business transactions and growth goals over maximum profits (Boersch, 2007).

Table 1: Distribution of Voting Blocks in Listed Companies in the Year 2005

Blockholder type	**Number of voting blocks > 5 %**	**% of total**	**Mean size of voting block**
Individual	717	42.70	25.10
Industrial firm	266	15.84	41.03
Foreign company	207	12.33	35.97
Investment firm	141	8.40	25.36
Holding *)	100	5.96	36.39
Banks: Other domestic	68	4.05	26.68
Insurance company	54	3.22	22.39
Other financial	33	1.97	16.91
Public	29	1.73	51.88
Banks: Big 3	20	1.19	26.35
Association, family pool	20	1.19	21.26
Foundation	18	1.07	28.34
Other	6	0.36	30.62

*) holdings/foundations are typically controlled by individuals or families

Source: Weber (2009, p. 63)

Individuals or family owners might have a large part of their wealth locked up in their firm (i.e., they are not diversified) and thus might be more risk averse than other, more diversified investors (Fama & Jensen, 1983). Also, they might favor family members rather than professional managers in key managerial positions (Schulze, Lubatkin, Dino, & Buchholtz, 2001). These characteristics might also create opportunities for individuals or family owners to extract private benefits from their block stakes (La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1998, 2002). As such, individual or family ownership of substantial equity stakes might not cohere well with shareholder value maximization principles.

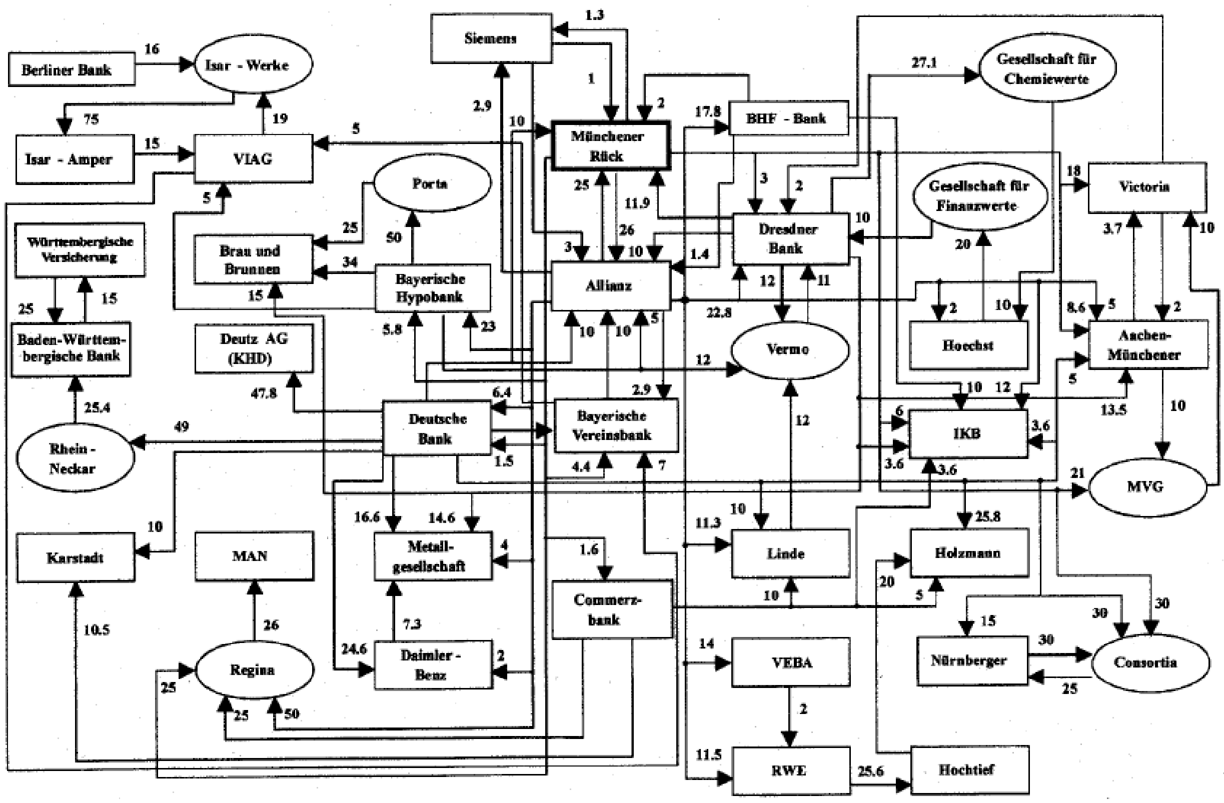
Concentrated ownership by banks or insurance companies might also put pressure on a firm's focus on shareholder value. In principle, German banks are unrestrained in their corporate ownership (Vitols, 2005a). Table 1 above somewhat understates the importance of banks because it ignores their influence via proxy votes at the general meeting and the influence of bank directors on supervisory boards (Edwards & Nibler, 2000). In Germany, banks are the main

exercisers of proxy votes because shareholders normally deposit them with their banks, and banks are allowed to cast the votes on these shares (Goergen, Manjon, & Renneboog, 2008). Typically, banks control less voting rights via their shareholdings than via proxy votes (Edwards & Nibler, 2000). Since they are both owners and creditors, they might be more risk averse than other owner types (e.g., institutional investors) and might also be more interested in balanced growth rather than focused on maximizing shareholder value.

Another characteristic of the German corporate governance system is the tight network of corporate cross-holdings. This feature, intermeshed with the role that banks play in company financing has earned Germany the label "Corporate Germany" or "Deutschland AG" (Cromme, 2005). Figure 3 below has often been reproduced and shows the cross-shareholdings between companies and the dominant roles of banks and insurance companies for sixteen of the DAX 30 blue chip companies (Adams, 1999).

This system of cross-holdings has also lead to a tight system of interlocking directorates, because a company that holds a significant ownership stake in another company tends to also place one of its managers on the supervisory board of that company. Du Plessis and Saenger (2007) present data that show that in the year 2000, only a small number of persons served on almost all supervisory boards of DAX 100 blue chip companies: 70 persons took up 1901 places on the supervisory boards of all DAX listed AGs and, in one particular case, one individual banker served on the supervisory boards of 35 AGs. The overlap of interlocking directorates combined with the above mentioned equity and credit relationships is referred to as "network multiplexity" (Kenis & Knocke, 2002, p. 284). Firms that are embedded in multiplex interfirm networks tend to focus on nonfinancial goals such as cooperation or securing markets rather than on the maximization of market value because multiplex ties reinforce relationship behavior

(Kuwabara, 2011; Uzzi, 1996). As such, network multiplexity does also not cohere well with shareholder value maximization.



Source: Adams (1999, p. 107)

Figure 3: Deutschland AG – The German Network of Cross-Holdings

The above descriptions of the most defining elements of traditional German corporate governance help to understand and explain the limited role of the equity market in firm financing, the inactive market for corporate control, the failure of the Neuer Markt in 2003, the preferences for lender oriented accounting standards, and the emphasis on fixed salary and bonuses rather than ESOs in director remuneration. In many respects, the features of German corporate governance emphasize the interests of creditors, employees, and insiders over the interests of minority shareholders.

There is considerable persistence and continuity in these institutions: The two-tier board structure and codetermination seem to be uncontested (Du Plessis, 2004). Ownership concentration continues to be high, cross-holdings are still prevalent, and top institutional blockholders remain powerful (Weber, 2009). The cohesion and homogeneity of the social world of German corporate managers largely remains unchanged. However, some firms have began to built in international ties and bring international managers on their boards (Balsmeier, Buchwald, & Peters, 2009; Schmid & Daniel, 2005). Further, there is evidence of continuity of structural characteristics in the network of interlocking directorates (Heinze, 2004). These observations, that the fundamental structure of German corporate governance appears to remain stable, provide support to the theory of systemic persistence and path dependence outlined above (Bebchuk & Roe, 1999).

Notwithstanding the persistence and continuity in these institutions, there has also been some degree of convergence towards market based corporate governance. The subsequent paragraphs show that changes towards shareholder orientation have begun to gather momentum in the mid 1990s.

Recent Changes in German Corporate Governance

It was not until the economic difficulties that Germany experienced during the 1990s that a debate on corporate governance started (Gerum, 2007). Problems in some industries, especially iron and steel, were blamed on the failure and the neglect of management and supervisory boards (Du Plessis et al., 2007). Additionally, the liberalization of global capital markets beginning in the 1980s and the increasing importance of public shareholders as investors during that time sparked a debate about effective institutional safeguards to secure investor confidence and to ensure

successful management of AGs. Since then, several regulatory changes have been introduced with the aim "… to meet the requirements and expectations of the international financial markets and to react to the institutional competition in the sphere of corporate governance" (Seibert, 1999, p. 70). The Third Financial Market Promotion Act (1998) was a major regulatory step in moving the German corporate governance environment towards shareholder orientation. The Federal Ministry of Justice issued the following press release in English in announcing the new legislation:

> The law should actively keep pace with public corporations as they gear up to the requirements and expectations of international financial markets. This also means that corporate strategy needs to be more strongly oriented towards *shareholder value* (Italics mine) (BAFIN, 1998).

The regulatory changes that followed this act were clearly in the spirit of shareholder value orientation and challenged the stakeholder-oriented co-determination principles and practices that characterize the German corporate governance regime (Bradley & Sundaram, 2003). Table 2 below provides a summary of the most important regulative changes in financial market legislation and an outline of the key implications of these laws.

The structure of the traditional German governance institutions described above showed to be remarkably resilient in the light of these regulatory changes. Change has taken place in Germany, but this did not revolutionize German corporate governance (Weber, 2009). What seemed to have emerged in Germany is a dynamic corporate governance system that combines both continuity in some institutions and change in others.

Table 2: Milestones in Financial Market Law Legislation

Law	**Key Elements**
First Financial Market Promotion Act (1990)	Created the first unified corporate market law; Formulated standards for prospectus requirements;
The Securities Trading Act (1994)	Required disclosure of blockholding thresholds of 5, 10, 25, 50, and 75 % of the voting rights;
Second Financial Market Promotion Act (1995)	Created the Federal Supervisory Office on Securities Trading [similar to the U.S. SEC];
The Antitrust Act (1998)	Made block trades > 25 % subject to scrutiny of the competition authority;
Third Financial Market Promotion Act (1998)	Legalized share buy-backs and stock option pay; promoted international accounting standards;
The Act on the Control and Transparency of Corporations (1998)	Prohibited deviations from one-share-one-vote; limited banks' use of proxy votes; limited number of multiple board memberships; regulated annual meetings;
The Takeover Act (2002)	Mandatory tender offer needs to be made as soon as an investor acquires 30 % of voting rights (includes various defensive measures); minority shareholders (< 5 %) can no longer stall a merger/acquisition; golden parachutes are illegal;
Capital Gain Tax (2002)	Capital gain tax no longer incurred by corporate owners or banks on divestitures of equity stakes;
Fourth Financial Market Promotion Act (2002)	Introduced provisions on market manipulation and disclosure of directors' dealings;
The German Corporate Governance Code (2002)	Formulated recommendations to improve governance practices relating to managing, directing and overseeing AGs;

Sources: Boersch (2007); Gerum (2007); Goergen et al. (2008); Weber (2009)

During the late 1990s and since the introduction of the different capital market reforms, ownership concentration decreased somewhat (Weber, 2009) and several types of market oriented investors, such as pension funds (e.g., CalPERS, TIAA-CREF), investment trusts, and other foreign shareholders began to play a more active role in corporate governance, both at the national as well as at the firm level (CalPERS, 1999; Vitols, 2004). Accompanying these changes, the English term "shareholder value" infiltrated the language of the German business media (Bradley & Sundaram, 2003) and corporate managers (Fiss & Zajac, 2004). Rhetoric, however, was not all that changed. By the year 2000, shareholder value orientation began to become a strategic goal in many German listed firms and shareholder-oriented companies began to enjoy a high reputation among German managers (Hoepner, 2001). Underlying these changes was a trend towards

professionalization of management, a greater focus on economic and financial issues, recruitment from the external labor market for managers, and shorter times in office (Hoepner, 2001). Consequently, the adoption and spread of practices commensurate with shareholder value orientation could be observed in the three dimensions of the concept (Hoepner, 2001): the communicative dimension (i.e., transparency and communication with outsiders), the operational dimension (i.e., implementation of profitability goals via value-based management approaches such as Discounted Cash Flow (DCF), Cash Flow Return on Investment (CFROI), Return on Invested Capital (ROIC), or Economic Value Added (EVA)), and the compensation dimension (i.e., firm performance oriented compensation such as ESOs). The review of previous research on governance reform in German AGs suggests an S-shaped curve in the cumulative adoption of practices in the three dimensions of shareholder value over time, including U.S. GAAP/IAS, ESOs, quarterly reporting, and value based management systems (Bradley & Sundaram, 2003; Chizema, 2010; Fiss & Zajac, 2004; Hoepner, 2001; Sanders & Tuschke, 2007; Tuschke & Sanders, 2003). The pattern of diffusion can be summarized as follows: Whereas in the year 1993 there were only a few German AGs that adopted any of these practices, between 1996 and 1998 these practices have spread rapidly, and finally, in the year 2001 the trajectory of the rate of adoption leveled off. At the beginning of the year 2002, around 50 % of the 150 largest listed German AGs had adopted one or more practices in the three dimensions of shareholder value concept.

With the issuance of the German corporate governance code in 2002, German AGs were provided with a variety of regulative legitimate choices for structuring their corporate governance. The following section will first explain the functioning of the code and then discuss the legal,

economic, and political importance of one of the code's most controversial elements: the recommendation to publish a director remuneration report.

The German Corporate Governance Code and Director Remuneration Reporting

The Government Commission for a German Corporate Governance Code was appointed in September 2001 by the Federal Ministry of Justice to develop an official German corporate governance code, which was released on February 26, 2002. The code applies to listed firms located in Germany (i.e., not to cross-listed foreign domiciled firms). In its work, the code commission was influenced by policy directives of multilateral bodies (OECD, 2000; World Bank, 2001), by developments in the U.S. and the U.K. (i.e., the Sarbanes-Oxley Act and the Combined Code), by institutional investors (CalPERS, 1999), and by the corporate elites of Germany. Representatives of prestigious German firms such as Porsche AG, ThyssenKrupp AG, or Allianz AG served as members on the commission (Cromme, 2002b, 2005). Cromme, the speaker of the supervisory board of ThyssenKrupp AG, chaired the commission, which was widely referred to as the Cromme Commission in the business press (Manager Magazin, 2008).

According to the Cromme Commission, the general objective of the code is to "… make Germany's corporate governance rules transparent for both national and international investors [and] to promote the trust of international and national investors as well as other stakeholders in the management and supervision of listed German stock corporations" (Cromme, 2002a, p. 1). To achieve these objectives, the commission considered the major criticisms of the insider focus of German corporate governance and formulated more than 80 reform provisions in six chapters regarding the two-tier board system, focus on shareholder interests, transparency, remuneration, independence of supervisory boards, and independence of financial statement auditors (Cromme,

2002a). German AGs are not compelled to comply with these provisions. The general principle underlying the code is comply-or-explain, which stems from the Cadbury Code in the U.K. (Sanderson et al., 2010). With this principle, the code commission attempted to avoid a one-size-fits-all approach to governance reform. The code grants the individual firm leeway to deviate from provisions and encourages firms to provide explanations for deviations from provisions in the so-called declaration of conformity. Article 161 of the German Stock Corporation Act obligates the management and the supervisory board of AGs to issue such a declaration of conformity on an annual basis. The code distinguishes between two kinds of provisions: There are recommendations and suggestions. In the annual declaration of conformity, deviations from recommendations that are marked in the code with the word "shall" must be disclosed in the annual declaration of conformity. Suggestions, marked in the code by the word "should," can be deviated from without disclosure. The declaration of conformity requires strict liability of the management and supervisory board members when actual practices do not correspond with the stated practices. However, the document is neither audited nor monitored by a third party (Du Plessis et al., 2007). It is important to point out that there exist variations in the comply-or-explain principle. Whereas the combined code in the U.K. requires firms to provide explanations of deviations from code principles, the German code only obliges firms to state their deviations from code principles and but does not require firms to provide explanations for the deviations (Weil, Gotshal, & Manges, 2002). Nevertheless, the preface of the German code explicitly states that firms are expected to provide explanations (Cromme, 2002a, b). In this sense, it might be more appropriate to refer to the principle underlying the German principle as comply-or-disclose rather than as comply-or-explain (Seidl, 2006) [For illustrative purposes, Appendix A includes BMW AG's declaration of conformity for the year 2003].

However, there are several field level processes that weaken the explain option of the code so that firms might interpret their options as comply-or-breach (Coombes & Wong, 2004), even when they might have justified reasons to deviate and explain. To understand the reasons behind that, it is helpful to define the code as a “regulatory field” (Hedmo, Shalin-Andersson, & Wedlin, 2006, p. 316) or an “issue based field” (Hoffman, 1999, p. 352). In the German context, within this issue based field, several processes and interactions between actors might lead firms to interpret the use of the explain option as a form of breaching the code. Seidl (2006) argues that many code provisions are incomplete in that they require additional observations to assess the appropriateness of the adopted provision. One instance of incompleteness concerns the explain option of the code. He points out that codes often do not provide any schemas for evaluating the explanations that firms offer in the case of deviations. Deviations are meant to be evaluated by capital market participants. The problem here is that there is uncertainty about the effects of deviations. As pointed out above, the effects of governance reform on shareholder wealth creation are ambiguous. Especially in an evolving regulatory field like the code, assessments of the appropriateness of deviations by capital market participants and other actors are made in an area of uncertainty. When actors in the regulatory field face issues with ambiguous means-ends relationships, they might engage in problemistic search (Cyert & March, 1963) and mimic the actions of other successful actors (DiMaggio & Powell, 1983). To begin with, the code commission itself did not pay much attention to explanations, nor did it describe what constitutes justified or unjustified explanations (Cromme, 2002a, b). This is well reflected in the code commission’s yearly official reports that merely report on AGs adoption rates regarding the recommendations and suggestions (von Werder & Talaulicar, 2005, 2006, 2007, 2008, 2009, 2010; von Werder, Talaulicar, & Kolat, 2003, 2004). Other actors such as corporate governance

rating agencies, shareholder associations, academic researchers, and the media mimic this model and simply count the number of deviations for their analyses and evaluations of firms (ECGF, 2006; Frankfurter Allgemeine Zeitung, 2001; Nowak et al., 2006; OECD, 2002). Consequentially, explained deviations, although in conformance with the code, tend to be evaluated negatively by actors in the regulatory field and firms might interpret their options as comply-or-breach, rather than as comply-or-explain or as comply-or-disclose.

An examination of the annual business reports and annual declarations of conformity of a sample of listed non-financial firms at the end of the financial year 2005 showed that in the areas of incentive alignment, transparency, and supervision, German firms indeed adopted many traditional Anglo-American shareholder oriented practices that were recommended by the code.

As pointed out previously, several of the code recommendations shown in table 3 above had already been implemented by some firms before the issuance of the code in August 2002 and cannot be characterized as innovations that introduced the shareholder value logic in Germany's corporate governance system. However, the code provided institutional support for practices that were institutionally contested in the past. For example, before 1998, German firms that introduced executive stock option plans (ESOs) needed to overcome strong political opposition by interest groups who fought the spread of the practice and had to exploit legal loopholes to adopt ESOs (Sanders & Tuschke, 2007). As shown in table 2, in 1998, the Third Act on the Promotion of Financial Markets legalized ESOs (Goergen et al., 2008). Finally, in 2002 the code went a step further and recommended ESOs as a good corporate governance practice for all publicly listed German firms (Cromme, 2002a). Therefore, the introduction of the code can be viewed as a mechanism that supplements, facilitates, and supports the institutions of the emergent shareholder value orientation among German publicly listed firms.

Table 3: Corporate Governance Recommendations with Compliance Rates < 85 % as of 2005; n = 189 Firms Listed in the General Standard and the Prime Standard Segments of the Frankfurt Stock Exchange

Code Topic	**Recommendation (Content)**	**Compliance**
D&O Insurance	If the company takes out a Directors and Officers liability (D&O) policy for the Management Board (MB) and Supervisory Board (SB), a suitable deductible shall be agreed.	47 %
MB Incentive Alignment	The overall compensation of the members of the MB shall comprise a fixed salary and variable components with long-term incentive effects and risk elements (e.g., stocks with a multi-year blocking period, ESOs, and phantom stocks).	49 %
Compensation CAP for MB	For extraordinary, unforeseen developments a possibility of limitation (CAP) shall be agreed for by the SB.	82 %
SB Incentive Alignment	Members of the SB shall receive fixed as well as performance-related compensation.	61 %
Remuneration Reporting	[T]he compensation of the members of the MB shall be reported […] subdivided according to fixed, performance-related and long-term incentive components, [t]hese figures shall be individualized. Additionally, [t]he compensation of the members of the SB shall be reported individually […] subdivided according to components.	33 %
MB Age Limitations	An age limit for members of the MB shall be specified.	76 %
SB Committees	Depending on the specifics of the enterprise and the number of its members, the SB shall form committees with sufficient experience.	76 %
Audit Committee	The SB shall set up an Audit Committee which, in particular, handles issues of accounting and risk management, the necessary independence required of the auditor, the issuing of the audit mandate to the auditor, the determination of auditing focal points and the fee agreement.	71 %
Financial Reporting (1)	The consolidated financial statements shall be publicly accessible within 90 days of the end of the financial year.	70 %
Financial Reporting (2)	Interim reports shall be publicly accessible within 45 days of the end of the reporting period.	75 %

Source: Author's evaluation of firms' annual declaration of conformity in 2005

Lawrence and Suddaby (2006) identified postdiffusion effects and categories of institutional work that aim at maintaining institutions after their initial diffusion. The code can be described as such a postdiffusion effect, because it did not introduce a new institutional logic in

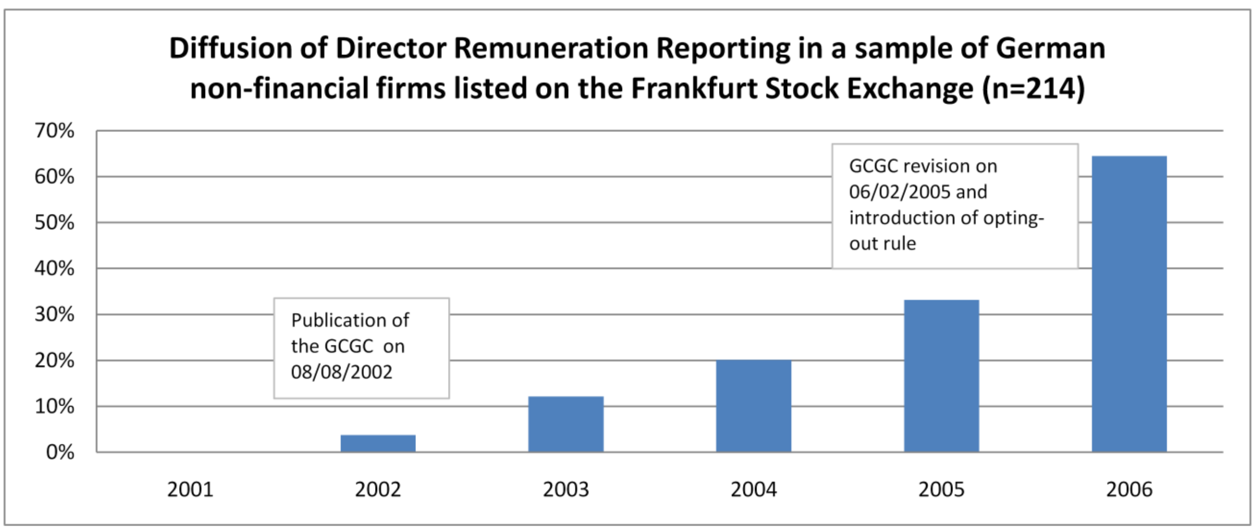
Germany, but rather extended and maintained the pace of the emergent shareholder value orientation logic by providing institutional support for existing shareholder oriented practices and by introducing practices that were compatible with this logic. In sum, the issuance of the code increased the heterogeneity of available regulative legitimate corporate governance practices in Germany. After the issuance of the code, firms could choose between shareholder-oriented and insider-oriented practices and were given more leeway to differentiate themselves from others. By 2002, a listed German firm could choose between often even directly contradictory alternatives, each with the imprint of regulatory legitimacy.

An example of a code provision that increased the number of legitimate alternatives is the recommendation to publish a director remuneration report [Appendix B and Appendix C include an example of a director remuneration report before and after the adoption of the code provision at Siemens AG]. This provision is at odds with accounting rule 285/#9 of the German Commercial Law (HGB), which states that firms must disclose only the aggregated sum of board members in total, with no information on the arrangement of rewards or on the pay of individual directors (http://norm.bverwg.de/jur.php?hgb, 285). This HGB rule is clearly reflective of the "insider" character of the German corporate governance system. Before the issuance of the code in 2002, minority shareholders were unable to obtain any information about firms' remuneration policies and practices, the compensation level of each director, whether and to what extent director payments were linked with the performance of the firm, and which director incentives were linked with compensation. Payments of the total for the board directors were not allowed to be published, since protection of data privacy could not be guaranteed (Du Plessis et al., 2007).

From 2002 onward, listed German firms could choose between the traditional HGB practice or the code recommendation, two contradictory, but regulative legitimate practices in

director remuneration reporting. Figure 4 shows the results of an annual count of the adoption of the director remuneration reporting code provision in a sample of 214 non-financial German firms between 2001 and 2006.

In 2001 none of the firms in the sample had published information on remuneration as it was recommended in the code in 2002. Although this code provision was at odds with the traditional rules in Germany's corporate governance system, the practice was adopted by several firms in 2002 and diffused over the subsequent years. On July 12, 2006, a code revision increased the regulative pressure on firms to publish the remuneration report. The "shall" status of the code provision was changed to a "must" status, which required firms to ask for a vote on adoption or non-adoption of the provision at the annual general shareholder meeting. However, an opting out rule was introduced: No publication of a remuneration report was required when three-fourth of the votes at the general meeting agreed to non-disclosure (Cromme, 2006).



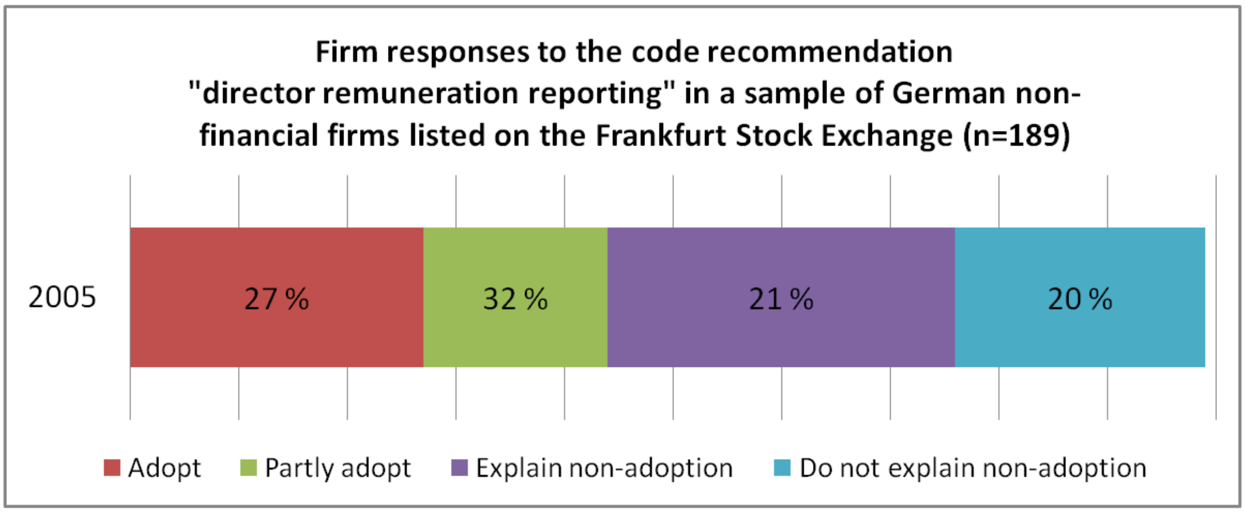
Source: Firms' annual declarations of conformity

Figure 4: Acquiescence to Pressures to Adopt Director Remuneration Reporting

During the annual shareholder meeting in 2006 firms had to decide on a particular disclosure arrangement and opt for non-disclosure for a maximum duration of five years (Bundesministerium fuer Justiz, 2005). Thus, in 2012, remuneration reporting was again a matter of discussion during the annual meetings.

As pointed out before, firms are not compelled to adopt code provisions and have leeway to deviate. Often, research assumes that firms provide explanations and justifications for their deviation from code recommendations (Ringleb et al., 2004; von Werder, Talaulicar, & Kolat, 2005). Indeed, some firms provide justifications for their non-compliance. For example [my translations], PORSCHE AG explains its deviance from the provision by stating that the firm " … is concerned about the privacy rights of their board members" (2003), BAYWA AG states that " … the individual disclosure of director compensation might result in an undesirable leveling of performance-related differences in compensation" (2005), DAIMLER AG writes that " … the boards [management and supervisory boards] act as collegial institutions and as such the incentive effects of compensation are decisive for the boards as a whole and not for individual board members" (2004), BEIERSDORF AG states that adoption " … is not necessary because others in the industry do not adopt as well" (2005), AXEL SPRINGER AG explains that " … direct competitors also do not adopt" (2003), GELSENWASSER AG justifies its deviation with the argument that " … the public discussion does not offer any consensus about the benefits of this provision" (2005), and DEUTZ AG states that " … the recommendation contradicts accounting rule 285/#9 of the German Commercial Law (HGB) and as such it is not necessary to adopt director remuneration reporting" (2003). However, not all firms seem to be pressed to provide justifications and explanations in the case of deviations. A detailed analysis of the annual declarations of conformity of a subsample of the previously analyzed firms at the end of the year

2005 shows that firms make use of the deviate option in a variety of ways. Figure 5 below shows that three categories of non-adopters can be identified. Some firms deviate from code recommendations without providing explanations as to why they do not adopt the provision. Other firms, although not compelled to do so, formulate and publish explanations as to why they deviate from the provision. Another group of firms partly adopts the provision (i.e., they do not fully comply with the recommendation and publish a complete director remuneration report but choose to publish the report only for particular directors and positions).



Source: Firms' annual declaration of conformity

Figure 5: Firm Responses to the Code Recommendation Director Remuneration Reporting

As discussed earlier, this heterogeneity in firm responses to pressures for corporate governance reform can be expected. As shown above, firms indeed pursue responses that fall between full acquiescence and outright defiance of institutional processes.

In recapitulating this chapter on German corporate governance, it can be observed that there exist both, pressures for convergence to and pressures for continued divergence from a

shareholder oriented model of corporate governance. There is some indication that the central institutions of the traditional insider oriented corporate governance system have remained stable or changed modestly, while at the same time shareholder value orientation has begun to play an increasingly important role. These tensions, which are graphically depicted in figure 1, have increased the heterogeneity in corporate governance inside Germany, a development that was reinforced by the issuance of the governance code. While the preceding analysis has highlighted broad trends in German corporate governance, these findings need to be complemented by a more microlevel analysis of the ways how firms accommodate these processes. Hence, the subsequent chapter draws from the tools of organization theory to develop a theoretical framework to explain and predict how firms strategically respond to the processes of change and continuity in their institutional environment.

CHAPTER 4. THEORY AND HYPOTHESES

This chapter has the goal to develop a theoretical perspective to seek answers to the research questions stated above and to formulate relevant hypotheses. The study proceeds as follows: First, it offers a critique of the contractarian paradigm in corporate governance research, especially with regard to the specific empirical context of this study. Second, following the critique, the study outlines a multitheoretic perspective on corporate governance reform, which is presented in the framework of sociological institutionalism. Finally, based upon this model, the study develops relevant hypotheses to explain strategic firm responsiveness to pressures for corporate governance reform.

The Legal-Economic View on Corporate Governance Reform

Agency-theory is often the starting point for theorizing about corporate governance (Fama, 1980; Fama & Jensen, 1983; Jensen & Meckling, 1976). The second industrial revolution of the late nineteenth century that lead to the emergence of the management profession and a systems change from personal capitalism to managerial capitalism (Chandler, 1977, 1984, 1990) created the problem of the separation of corporate ownership and corporate control (Berle & Means, 1932), or as Fama & Jensen (1983) frame it, the problem of separation of risk-bearing and decision management. Agency theory is concerned with problems that can arise in any cooperative exchange when one party (the principal) contracts with another (the agent) to make decisions on behalf of the principal (Eisenhardt, 1989). These contracts are incomplete and subject to the nature of people (i.e., opportunism, self interest, bounded rationality, risk aversion) and the nature of organizations (i.e., goal conflict among members), and the fact that information is distributed asymmetrically. Consequently, agency theory is concerned with resolving two

problems. The first is the agency problem that arises when (a) the goals of the principal and agent conflict and (b) it is difficult or expensive for the principal to verify that the agent has behaved appropriately. The second is the problem of different preferences for risk. Shareholders are argued to be risk neutral to the specific risk of any single firm, because they spread their investments across a diverse set of firms. Managers are risk averse and concerned about firm specific risk because they cannot diversity by holding multiple employment contracts and this uncertainty is not covered in their employment contract (i.e., they are not compensated for this risk). These characteristics increase the threat of moral hazard (i.e., agent shirking). Agency cost are incurred by investments in bonding, monitoring, and incentive mechanisms to influence the relationship between principals and agents (i.e., self-serving vs. owner-serving) which, in turn, influences firm outcomes (i.e., performance, risk, diversification, acquisition, sale of firm, executive pay). The focus of agency theory is therefore on determining a contract that gives the agent incentives so that his interests are the same as those of profit maximizing owners. A large body of research has investigated the mechanisms available to monitor and control the behavior of managers and to minimize agency problems, focusing mainly on board of directors, compensation, and the market for corporate control (Shleifer & Vishny, 1997). Despite frequent use, several authors suggest that the assumptions underlying agency theory portray an undersocialized perspective on the behavior of agents and principals, in that these actors, as well as, other stakeholders of firms, act in ways that are assumed to be economically rational and marginally influenced by social relationships (Dalton et al., 2003; Dalton et al., 1998; Lubatkin, Lane, Collin, & Very, 2006; Lubatkin, Lane, & Schulze, 2001). Although agency theory has limitations in any context, the theory's limitations become more apparent when examining the theory's assumptions in the context of international

corporate governance. With respect to Germany, the empirical context in this study, there are several issues that limit the theory's applicability to explain corporate governance reform.

First, as originally formulated, agency theory views the influence of ownership on corporate governance issues as a function of ownership concentration with assumptions of the dominance of shareholder value maximization and risk neutrality. However, as evident in table 1, German blockholders possess various identities (e.g., family, bank, insurance, individuals, or the government) that influence the priorities that these capital providers hold regarding shareholder value maximization and specific corporate governance arrangements. Second, and consistent with Denis & McConnell's (2003) review article on international corporate governance, table 1 also shows that ownership is highly concentrated in Germany. Thus principal-principal conflicts might be more of an issue than the conflict between dispersed principals and agents. Third, agency theory emphasizes financial stakeholders of the firm. It therefore does not consider the interests and influence of non-financial stakeholders, such as labor representatives or trade and professional associations. However, as discussed above, labor is a critical stakeholder in the German context and enjoys a strong voice in corporate decision making particularly with regard to corporate governance issues (Lorsch, 1991; Roe, 1998). Further, important stakeholder interdependencies such as the above described multiplex ties strongly influence corporate governance and firm behavior in Germany. These elements of social structure are not accounted for in agency theory. Fourth, as pointed out above, agency theory explains firm behavior as primarily influenced by agency costs. Due to its economic roots, agency theory focuses on controlling, monitoring, and incentive alignment as mechanisms to reduce potential agency conflicts. However, the legitimacy and effectiveness of these mechanisms may depend upon institutional factors. Agency theory based controlling, monitoring, and incentive alignment

mechanisms that are legitimate means to reduce potential agency conflicts in one context (e.g., ESOs or detailed director compensation disclosure in the U.S.) might not necessarily be normative, regulatory, or cultural-cognitive legitimate instruments in other contexts. The effectiveness and efficiency of corporate governance mechanisms and practices therefore might be contingent on the institutional environment.

In summing up these issues, it can be argued that agency theory reflects an undersocialized and undercontextualized view of corporate governance (Aguilera & Jackson, 2003; Lubatkin et al., 2001). The recognition of these shortcomings in the financial-economics approach to studying corporate governance in an international environment has lead to a growing consensus in the literature that research ought to avoid context-free propositions and pursue a more “open-systems” approach to seek to understand corporate governance in the context of a wider range of institutional domains (Aguilera et al., 2008; Aoki, 2001; Filatotchev & Nakajima, 2010; Yoshikawa & McGuire, 2008). This critique suggests that firms’ corporate governance arrangements and responses to corporate governance reform initiatives are unlikely to be explained by a single force such as agency costs or by a single regulative institution such as shareholder protection laws (LaPorta et al., 1998). An “open-systems” approach to study corporate governance recognizes that corporate governance arrangements are not necessarily a function of the efficient contractual alignment of decision management, decision control, and residual risk bearing (i.e., the determinants of the cost function for a firm to deliver an output). In the following sections, I will take a socially informed perspective of firms and actors and develop an alternative account of how corporate governance reform at the firm level may be studied within the framework of sociological institutionalism.

An Institutional Perspective on Corporate Governance Reform

Institutional theory provides a framework that can be applied to construct an "open systems" perspective to study corporate governance and it also provides a theoretical counterweight to the financial-economics view (Yoshikawa & McGuire, 2008; Yoshikawa et al., 2007). In fact, Fiss (2006, 2008) suggested that interesting insights into corporate governance reform are likely to come from perspectives that draw on several theories and disciplines. In addressing the research questions stated above, this study advocates that promising answers can be found in expanding beyond the traditional contractarian research model in financial economics and to examine corporate governance reform through a socially informed integrative multitheoretical lens based upon institutional, resource dependence, social network, upper echelon, and organizational learning/routine theoretical perspectives. As shown in the previous literature review, researchers have invoked these theoretical perspectives to explain change and continuity in corporate governance. An integration of these perspectives is theoretically meaningful, because the evolution of corporate governance systems, like the German system, can be best described as a dynamic process that combines both continuity in some institutions and change in others. As shown on the right side of figure 6 below, the aim of the theoretical integration is to explain firm responsiveness to corporate governance reform pressures as a function of the interaction of internal characteristics of firms and the characteristics of the institutional environment. Institutional theory takes an influential position in the model. It is usually regarded as an explanation of organizational inertia and stability in a field of organizations and views the external context as the source of normative, regulative, and cognitive-cultural pressures to which firms in their quest for legitimacy must conform (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). Nevertheless, institutional theory contains important insights that,

when integrated with resource dependence theory, social network theory, upper echelon theory, and organizational routine/learning theory provides a model to explain why some firms respond to reform processes whereas others do not, although they share the same institutional context. Organizational routine/learning theories can explain how established activities and routines can foster or block the incorporation of reform practices from the external institutional environment (Newman, 2000). On the one hand, established routines can account for inertia and continuity because they anchor a firm to its past even in the face of institutional pressures for reform. On the other hand, organizational learning can also lead to a break from history and encourage the integration of external pressures (Levitt & March, 1988). Resource dependence theory and social network theory conceptually overlap with isomorphic processes specified in institutional theory, although it is important to note that they might be empirically difficult to disentangle (Mizruchi & Fein, 1999). Resource dependence theory overlaps with institutional theory in the concept of coercive isomorphism as resource dependencies can include pressures to bring a firm's corporate governance structure in line with the demands of powerful institutional constituents (Oliver, 1991; Pfeffer & Salancik, 1978). Social network theory builds on resource dependence theory and overlaps with institutional theory on the notion that a firm's (economic) actions are embedded, informed, influenced, and enabled by social relations (Granovetter, 1985). Isomorphic pressures for governance reform in the institutional environment may therefore be mediated by a firm's embeddedness in interfirm networks. Finally, upper echelon theory (Hambrick & Mason, 1984) recognizes that top executives' normative and cognitive templates function as filters of broader institutional processes and influence their strategic choices. As such, top executives interpret institutional processes and function as the protectors or reformers of institutional norms and values. In sum, the model below, which is analogous to figure 1, suggests that when faced with

pressures for governance reform, a firm's accommodation of or resistance to institutional pressures is indirectly influenced through resource dependencies, firm stakeholders, organizational routines, and social networks. Before the development of hypotheses based upon the suggested theoretical model in figure 6, the study will first elaborate on how institutional theory can provide insights into possible processes of change and continuity emanating from a firm's field. Then the focus will shift to a description of different strategies and tactics how firms accommodate field level processes. Finally, hypotheses will be developed to predict why firms differ in their strategic responsiveness to corporate governance reform processes.

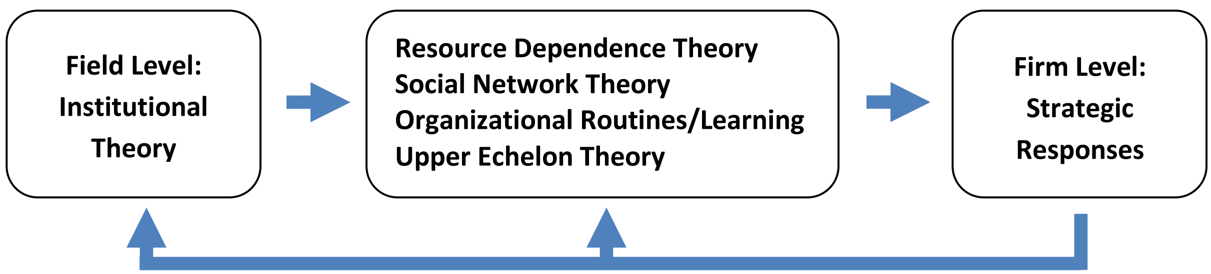


Figure 6: A Multitheoretical Model of Firm Responsiveness to Corporate Governance Reform Processes

An institutional perspective recognizes that "[o]rganizations compete not just for resources and customers, but for political power and institutional legitimacy, for social as well as economic fitness" (DiMaggio & Powell, 1983, p. 150). Meyer and Rowan (1977) launched the new institutional theory (Mizruchi & Fein, 1999) arguing that in the long run, the survival of a firm is not solely dependent on financial success and effectiveness but also on its status as a legitimate participant in its institutional environment (Deephouse, 1996; Greenwood & Hinings, 1996; Scott, 2001). Within this institutional environment, or more specifically, the firm's organizational field that is defined as "… a community of organizations that partake in a common meaning system and whose participants interact more frequently and fatefully with another than

with actors outside the field" (Scott, 1995, p. 56), the behavior of firms is guided by institutions. Participants in this field can include critical exchange partners, the government, labor unions, the general public, regulatory agencies, capital providers, and various professional groups, in short, any constituent that can impose coercive, normative or mimetic influence on the firm (DiMaggio & Powell, 1983). Out of this field emerge regulative, normative, and cultural-cognitive systems that are vital elements of institutions (Scott, 2001). These three elements, or three pillars of institutions, form a continuum moving "from the conscious to the unconscious, from the legally enforced to the taken-for-granted" (Scott, 2001, p. 51). For the actors in the organizational field, these three pillars can function as social facts that provide collective meaning, stability, and bases for legitimacy, which firm actors take into account when determining what constitutes appropriate action (Scott, 2001). The regulative pillar reflects the constraining and regularizing aspects of institutions (North, 1990; Roe, 2004). Central are rule-setting, observation, control, coercion and sanctioning of behavior. Coercive pressures for conformance result from power relationships (e.g., resource dependencies) and politics (DiMaggio & Powell, 1983). The normative pillar concerns the prescriptive, evaluative and obligatory dimension of institutions. Firms follow social obligations, not because it would be directly in their interests on the basis of a cost-benefit calculation, but because compliance is expected and there is a moral obligation to meet expectations (Scott, 2001). Normative pressures for conformance are often associated with professions, membership in trade associations, and professional networks that instill similar values of what is proper behavior (DiMaggio & Powell, 1983). The cognitive-cultural pillar concerns those institutions that determine the way in which reality is conceived and through which reality is given meaning. Firms follow such cognitive-cultural patterns, not because of coercion, or because of a moral obligation, but because they are simply taken for granted as the

way things are done. Other types of behavior appear inconceivable (Scott, 2001). Mimetic pressures for conformance are the underlying mechanisms of this pillar and arise from uncertainty. As an efficient response to uncertain situations, firms rely on routines and often imitate peers that are considered similar, successful and prestigious (Cyert & March, 1963; DiMaggio & Powell, 1983). The incorporation of elements (e.g., practices, procedures, strategies, structures, etc.) from the institutional environment that are consistent with the three pillars of legitimacy imbues a firm with legitimacy (Deephouse, 1996; Meyer & Rowan, 1977). As such, firms' corporate governance choices can be understood as a reflection of the three pillars of institutions. Individual firms' corporate governance arrangements are thus not the outcome of choices among unlimited possibilities, but rather the outcome of choices among a defined set of legitimate, but not necessarily effective and efficient options (Ingram & Clay, 2000; Meyer & Rowan, 1977). Firms that appear legitimate increase their chance for survival because constituents will not question the firm's intent and purpose (Deephouse, 1996). "Legitimacy affects the competition for resources" (Pfeffer & Salancik, 1978, p. 201), it can be manipulated and managed to achieve organizational goals (Suchman, 1995), and it can have positive effects on various performance measures, such as Initial Public Offering (IPO) values (Cohen & Dean, 2005; Higgins & Gulati, 2006), stock prices (Zuckerman, 2000), and stakeholder support (Choi & Shepherd, 2005).

The arguments presented so far might invoke the impression that organizational fields are predominantly unitary and static and that regulative, normative, and cognitive-cultural influences affect all firms in an equal manner. This perspective, which certainly presents an over-socialized view of firm behavior (Granovetter, 1985), is reflected in the arguments of scholars in the previously discussed business systems perspective (Whitley, 1992, 1999) and VOC paradigm

(Hall & Soskice, 2001). These two perspectives emphasize that institutional complementaries among major institutional sectors (Hall & Soskice, 2001) or the nature of relationships and interconnections between social actors (Whitley, 1992, 1999) create particular institutional opportunities and logics (i.e., business recipes). When firms adjust their strategies, structures, and practices to take advantage of these opportunities and when they align themselves with the prevalent institutional logics, the institutional environment confers a comparative institutional advantage on them (Hall & Soskice, 2001). Consequently, and similar to the reasoning presented before, if coercive, normative, and cultural-cognitive pressures and institutional complementarities are particularly strong, then certain types of firm strategies, structures, and practices will tend to become prevalent. In other words, under certain institutional conditions (i.e., a particular combination of forms of interrelationships or high levels of institutional complementarities), firms within business systems or varieties of capitalism (e.g., LMEs and CMEs) will become homogeneous in their characteristics. As such, the main theoretical concepts underlying these two perspectives are two fundamental concepts of institutional theory: institutional fit and isomorphism (Carney, Gadajlovic, & Yang, 2009). With regard to the convergence/divergence debate, the arguments presented so far suggest that institutional stability, path dependence, and inertia are likely to prevail in institutionalized contexts and will make convergence in corporate governance an unlikely outcome.

Whereas the critique of agency theory at the beginning of this section took issue with the theory's undersocialized and undercontextualized conceptualization of firm behavior and corporate governance, the arguments presented subsequently lean towards an oversocialization of firm behavior. However, an institutional perspective on corporate governance can go beyond explaining complementarity and consistency. Rather than studying the coherence of national

systems of corporate governance, an institutional approach can also challenge this view and focus instead on heterogeneity within national models and emphasize the importance of inconsistency and contestation (Carney et al., 2009; Deeg & Jackson, 2007; Sanders & Tuschke, 2007; Tempel & Walgenbach, 2007).

As discussed previously, organizational fields are not always unitary and contextual isomorphic forces may be weak or weaken over time, which can expose firms to multiple and conflicting institutional pressures (Greenwood et al., 2011; Meyer & Hoellerer, 2010; Pache & Santos, 2010; Wooten & Hoffman, 2008). These tensions in turn "… open the possibility for idiosyncratic interpretation" (Greenwood & Hinings, 1996, p. 1029) and "… provide actors with margins of manoeuvre and opportunities for creativity" (Hardy & Maguire, 2008, p. 202). Indeed, in the particular context of this study as well as in other nations' corporate governance systems, most of the field-level predictors of isomorphic change, identified by DiMaggio and Powell (1983), moved into directions that, according to their theory, diminished the isomorphic pressures on firms and actors within corporate governance systems. Whereas DiMaggio and Powell (1983) have argued that a lack of alternative legitimate organizational models and practices in a field increase the homogenization among actors in a field, the proliferation of codes of good governance, for example, has instead increased the number of available (regulative) legitimate organizational practices. This development should allow for increasing variation in corporate governance arrangements of firms within corporate governance systems. Further, DiMaggio and Powell (1983) hypothesized that the strengthening of macrosocial/contextual factors such as the structuration of organizational fields (i.e., that there is a clear understanding of the different roles of players in the field), the role of governmental influence (i.e., the influence of the state on the regulation of firms), homogeneity of managerial backgrounds, and the resource dependencies of

an organizational field (i.e., the extent to which firms depend on similar resource providers) would increase homogenization among actors in a field. In the context of this study and in many other corporate governance systems these macrosocial/contextual factors have weakened rather than strengthened (Gilson, 2004; Gilson & Milhaupt, 2005; Jackson & Moerke, 2005). For example, in many insider oriented governance systems influential actors such as banks changed their roles in that they loosened their ties with industrial firms and moved into the investment business (Hoepner, 2001), corporate governance code initiatives weakened the state in its role as the exclusive regulator of corporate governance (Aguilera & Cuervo-Cazurra, 2004), the backgrounds of top executives became more diverse (Juergens et al., 2000a), and the globalization of financial markets made firms dependent on a broader, more heterogeneous set of resource providers that brought new expectations and commitments into firms (Licht, 1998). These changes, combined with the increasing diversity of managerial logics and commitments regarding the purpose of the corporation and the organizing templates to be used, may lead to an increasing variation - rather than homogenization - of corporate governance arrangements of firms within corporate governance systems (Aguilera & Jackson, 2003; Juergens et al., 2000a). These contextual conditions can lead to "reverse isomorphism" (Hambrick, Finkelstein, Cho, & Jackson, 2005, p. 307) within corporate governance systems, a reasoning that is in line with the predictions of DiMaggio and Powell (1983). This discussion is significant because it highlights the possibility and it acknowledges the likelihood of alternative governance templates within corporate governance systems and that firms confront forces of both change and continuity. What is important, however, is to recognize that a decrease in isomorphic pressures does not in and of itself directly cause variety in firm practices or in their responses to institutional processes. Rather, firms are granted a wider set of choices and firms are allowed latitude to act strategically

within certain boundaries to accommodate institutional pressures (Hirsch, 1997; Ingram & Clay, 2000; Oliver, 1991). This "agentic perspective" (Boxenbaum & Jonsson, 2008, p. 85) consequently moves the convergence/divergence debate further away from the either/or question, and rather asks to address the range of strategies that firms pursue in response to pressures for corporate governance reform. As argued before, arguments drawn from institutional theory, resource dependence theory, social network theory, upper echelon theory, and organizational routines/learning perspectives can explain these choices.

Strategic Firm Responses to Corporate Governance Reform Processes

Within this agentic perspective on institutional change, Oliver (1991) proposed that firms craft a variety of response strategies and engage in a multitude of tactics in the face of pressures presented by the institutional environment. It is important to note here that this perspective requires one to see institutions more as "… the products of human design, [and] the outcomes of purposive action by instrumentally oriented individuals" (DiMaggio & Powell, 1991, p. 8) rather than as primarily invisible social facts. Building upon this view of institutions, Oliver (1991) developed a typology consisting of five broad strategies that are available for firms to respond to institutional processes: acquiescence, compromise, avoidance, defiance, and manipulation. These types of strategic responses "… vary in active agency by the organization from passivity to increasing active resistance" (Oliver, 1991, p. 151) along a continuum as depicted in figure 7.

Passive Conformity **Active Resistance**

Acquiescence Compromise Avoidance Defiance Manipulation

Figure 7: A Continuum of Response Strategies to Institutional Processes

Acquiescence refers to the most passive and at the same time the most responsive strategy. It entails the adoption of arrangements demanded by regulative, normative, or cultural authorities. This strategy can result from the unconscious adherence to taken-for-granted norms, from the conscious or unconscious imitation of institutional models, or from the conscious obedience to institutional requirements (Oliver, 1991; Scott, 2008).

Compromise refers to the attempt by firms to partially accommodate institutional demands. Firms may choose this strategy in circumstances when they are confronted with conflicting demands or inconsistencies between institutional expectations and internal objectives. This strategy can result from firms' efforts to balance multiple stakeholder demands, from the combination of attempts to conform to minimum institutional requirements and to pacify the institutional source or sources they resist, or from efforts to more actively bargain alterations and modifications of demands with institutional referents (Oliver, 1991; Scott, 2008).

Avoidance refers to the attempt by firms to circumvent the conditions that make conformance to institutional pressures necessary, to the attempt to preclude the necessity of conformity to these pressures, or to avoid or lessen critique from being unresponsive to pressures. Firms may make efforts to disguise the fact that they have no intentions to conform behind a façade of acquiescence, they may attempt to buffer institutional processes by decoupling internal

activities from external scrutiny, or to escape the domain within which pressure is exerted (e.g., delist from a stock exchange) (Oliver, 1991; Scott, 2008).

Defiance refers to attempts by firms to reject, ignore, challenge, or attack institutional demands. Firms may pursue this strategic option if they do not understand the reasons underlying institutional pressures, they ascertain that the risk of “getting caught” and to lose institutional support is low, they do not depend on the institutional source or sources that exert pressure, they assess that the cost of deviance from expectations is low, or when their internal interests diverge dramatically from external expectations (Oliver, 1991; Scott, 2008).

Manipulation refers to the most active and least responsive strategy. Firms may attempt to exert power over the source of institutional pressure and to seek to actively change the content of this pressure. This strategy can result from firms’ efforts to co-opt and neutralize institutional sources, to manipulate institutionalized norms and criteria of evaluation, and to control or dominate the source of pressure (Oliver, 1991; Scott, 2008).

As discussed above, the code recommendation director remuneration reporting offers a practically as well as theoretically interesting example to study how firms strategically respond to pressures for corporate governance reform and to study the factors that underlie these responses. Table 4 below summarizes Oliver’s (1991) typology of strategic responses to institutional processes and provides examples for those strategies related to the code provision director remuneration reporting. The examples in the right column of table 4 correspond to the findings presented in figure 5. Unfortunately, I am not in a position that would allow me to observe how firms make use of the fifth strategy, the active manipulation of institutional environments. The strategic response in column four is therefore a hypothetical example.

Table 4: Strategic Responses to the Issuance of a Code Provision

Strategies	Tactics	Definition	Examples for this study
Acquiescence	Habit Imitate Comply	Firm fully adopts institutional demands and expectations	Firm adopts director remuneration disclosure provision for all directors on both boards
Compromise	Balance Pacify Bargain	Firm attempts to achieve partial conformity with institutional demands and expectations	Firm partly adopts the provision (i.e., only for some directors or only for one board/not for other)
Avoidance	Conceal Buffer Escape	Firm attempts to eliminate the necessity to conform to institutional demands and expectations	Firm does not adopt but publishes an explanation as to why it does not adopt the provision
Defiance	Dismiss Challenge Attack	Firm ignores and rejects institutional demands and expectations	Firm does not adopt and does not publish an explanation as to why it does not adopt the provision
Manipulation	Co-opt Influence Control	Firm attempts exert power over the source of institutional demands and changes their content	Firm installs its own disclosure practice/policy as a code provision or recommendation

Source: Adapted from Oliver, 1991

As discussed earlier, it is not surprising that firm responses to the issuance of the corporate governance code provision would fall on a range between full acquiescence and outright defiance. Consequently, it is theoretically meaningful to investigate the degree to which firms respond to reform pressures and the range of strategic responses available rather than to examine the simple dichotomy of adopt or do not adopt (i.e., convergence to a new governance model versus continued divergence and persistence of the established governance model). While this section presented a continuum of firm responses to institutional pressures for governance reform, ranging from passive conformity to active resistance, the subsequent section will draw from the multitheoretical model presented above to address the factors that determine a firm's level of responsiveness to the issuance of the director remuneration reporting code provision.

Determinants of Strategic Firm Responsiveness to Corporate Governance Reform Pressures

Answering the questions "Why [institutional pressures] are being exerted, who is exerting them, what these pressures are, how or by what means they are exerted, and where they occur"

(Oliver, 1991; p. 159), will provide a better understanding of a firm's ability, willingness, or interest of choosing more or less active strategic responses to institutional pressures. Oliver (1991) outlined five institutional antecedents – constituents, content, cause, control, and context – that provide a framework to hypothesize about the likelihood that a firm will pursue strategies of conformance or resistance in response to institutional processes. The hypotheses developed below will specify the effects of these factors on the level of firm responsiveness to the issuance of the director remuneration reporting code provision in Germany.

Powerful Stakeholders and Their Preferences

Within the agentic perspective on institutional change proposed above, corporate governance reform can be understood as a process that is "… profoundly political and reflects the relative power of organized interests and the actors who mobilize around them" (DiMaggio, 1988, p. 13). Politics in this context refers to the structure and process of the use of authority and power to effect definitions of goals, directions and other major parameters of an organization (Walmsley & Zald, 1973). Power refers to the potential or capacity of an actor to influence the behavior of another actor with regard to a particular issue (Crozier, 1973). Actors such as capital providers, labor representatives, and top management can be identified as critical firm stakeholders that play important roles in initiating, reinforcing, and buffering corporate governance reform efforts (Aguilera & Cuervo-Cazurra, 2004; Aguilera & Jackson, 2003). These actors might aim to stake claims for new and divergent corporate governance and exercise power, which can lead to conflict and contestation in a field. Especially during times of institutional change, which is certainly a characteristic of the context of this study, political efforts of these actors might be more visible. These considerations point to a model of institutional change that views the underlying change

process as a function of the relative power, number, and interest of agents (Fligstein, 1985; Marquette, 1981). Therefore, as argued above, it is important to move from a systemic perspective on corporate governance reform to a perspective that includes both firms and their stakeholders in explaining change. A more actor-centered institutional perspective on corporate governance reform recognizes that powerful actors who control critical firm resources differ in their identities, strategies, and interests, which can translate into different governance orientations and shape firms' interactions with the institutional environment (Aguilera & Jackson, 2003; Oliver, 1991; Pfeffer & Salancik, 1978). The following sections will develop hypotheses regarding how the government as a code issuer introduces code practices into an institutional environment and how powerful stakeholders, including capital providers, labor representatives, and top management interpret and thereby magnify or attenuate these pressures.

The Role of the Government as an Institutional Entrepreneur

Past research has identified a variety of types of code issuers such as stock exchanges, governments, directors' associations, managers' associations, professional associations, and investors' associations (Aguilera & Cuervo-Cazurra, 2009). Those code issuers can be characterized as "institutional entrepreneurs" (DiMaggio, 1988, p. 14), which are "… actors who have an interest in particular institutional arrangements and who leverage resources to create new institutions or to transform existing ones" (Maguire, Hardy, & Lawrence, 2004, p. 657). The concept of institutional entrepreneurship is important because it focuses attention on the ways and processes by which interested actors work to influence their institutional context (Clemens, 1993; Greenwood, Suddaby, & Hinings, 2002; Holm, 1995). Institutional entrepreneurs engage in "institutional work" (Lawrence & Suddaby, 2006, p. 215) aimed not only at creating new

institutions but also at maintaining and disrupting emergent or established institutions. In the context of this study, the introduction of the code may be viewed as a mechanism that supplements, facilitates, and supports the institutions of the emergent shareholder value orientation among German publicly listed firms. The code did not introduce a new institutional logic in the German corporate governance system, but rather extended and maintained the pace of the emergent shareholder value orientation logic by providing institutional support for existing shareholder oriented practices and by introducing practices that were compatible with this logic. The code reflects the German governments' interest in a particular institutional arrangement that promotes a business environment that is legitimate and competitive in the face of financial and product market globalization. In the past, the German government had implemented several shareholder value oriented regulatory changes "… to react to the institutional competition in the sphere of corporate governance" (Seibert, 1999, p. 70) and to promote *Standort Deutschland* and *Finanzplatz Deutschland* (Germany as a location for economic activities and as a Germany as a financial center) (Boersch, 2007).

For institutional entrepreneurship to be successful, code issuers need to pursue intervention strategies that ensure that their interests become widely taken for granted by other actors in the field. Firstly, these interventions can fall into the discursive or ideational realm. By using particular rationales and communicative frames, institutional entrepreneurs can increase the chances that other actors support and do not resist their institutional work (Hardy & Maguire, 2008). For example, the framing of the code as a code of *good* corporate governance may make it risky and difficult for firms to pursue defiance strategies. Further, institutional entrepreneurship often involves the cooptation of other actors and thereby avoiding overt conflict and resistance (Hardy, 1985; Lawrence, Hardy, & Phillips, 2002). A good example for this kind of intervention

strategy was the establishment of the Government Commission for a German Corporate Governance Code which included several high profile and well connected representatives of German listed firms. Finally, and most directly related to the theoretical arguments presented previously, institutional entrepreneurs often pursue their interests via resource dependence relationships (Hardy & Maguire, 2008). DiMaggio (1988, p. 18) pointed out the necessity of "sufficient resources" for institutional entrepreneurs to be able to bring about institutional change in a field. These resources can include the discursive and political resources highlighted above and also financial resources (Lawrence & Suddaby, 2006). Research suggests that these resources are mobilized by institutional entrepreneurs and then used as a lever against other actors in the field to lobby and negotiate for cooperation and support for the intended change (Hardy & Maguire, 2008). The German government as an institutional entrepreneur may have tied that ability directly to its field position if it controls sufficient financial resources in the firms it seeks to influence. Thus, I propose the following hypothesis:

> **H1: The size of a firm's equity stake held by a dominant government owner will be positively associated with the firm's level of responsiveness to a code provision that recommends to publish a director remuneration report.**

The Role of Capital Providers as Issue Interpreters

The stakeholder group capital providers cannot be assumed to be a homogeneous group primarily focused on maximizing shareholder value and economic profit (Fiss & Zajac, 2004; Pursey et al., 2009; Thomsen & Pedersen, 2000; Yoshikawa & Rasheed, 2010). However, research in financial economics tends to treat capital providers primarily as an economic variable and its influence on firm outcomes as a function of ownership concentration (Fama & Jensen, 1983; Jensen & Meckling, 1976). In contrast, an actor-centered institutional perspective pays attention to the characteristics that affect the preferences that these stakeholders give to

shareholder value maximization versus other interests they may have. The research framework presented above suggests that contextual pressures for governance reform may be amplified, attenuated, or translated by capital providers. Pressures for governance reform are moderated by the extent to which these actors have an interest in proposed reform changes in the institutional context and have the power to support or challenge these pressures (Greenwood & Hinings, 1996). This perspective suggests that "Organizations are […] arenas in which coalitions with different interests and capacities for influence vie for dominance" (Palmer, Jennings, & Zhou, 1993, p. 103) and that groups with different value commitments use favorable power dependencies to enable change that is consistent with their interests (Greenwood & Hinings, 1996). As such, corporate governance reform needs to be understood in the context of political processes within firms (Fiss, 2008; Fiss & Zajac, 2004). As pointed out above, established and emerging capital providers in Germany can be meaningfully differentiated in terms of their strategies, objectives, and motivations that pertain to their shareholdings in firms. From a theoretical perspective, resource dependence theory helps in understanding a firm's interactions with capital providers (Pfeffer & Salancik, 1978). Given the importance of financial resources for survival, firms are likely to comply with the demands of capital providers if they own sufficient firm resources. Resource dependence theory suggests that "[o]wnership represents a source of power that can be used either to support or oppose management, depending on how it is concentrated and used. In general, the more concentrated ownership is the more potent potential support or opposition" (Salancik & Pfeffer, 1980, p. 655). The objectives of management therefore are dependent on which ownership group is most influential. Institutional theory complements this perspective and suggests that isomorphism with demands in the institutional environment serves firms to enhance their legitimacy and to gain or maintain access to critical resources (DiMaggio & Powell, 1983).

The coercive isomorphism argument from institutional theory further predicts that the higher a firm's resource dependence on the above listed actors, the more likely it is that the firm will be responsive to their demands regarding the implementation of corporate governance code provisions (Oliver, 1990, 1991). In this perspective, conformance to demands takes precedence over considerations for effectiveness or efficiency (Meyer & Rowan, 1977). In sum, for both institutional theory and resource dependence theory, the survival of firms depends on their responsiveness to external demands and expectations. In the hypotheses developed in the subsequent two sections, I will explain and predict how the following owner identities influence governance reform efforts in firms: (1) inside owners, (2) stable owners, (3) market oriented owners, and (4) foreign owners.

Inside owners such as founders and their immediate family members and associated holdings and foundations play an important role in many German AGs (Vitols, 2004; Weber, 2009). Prime examples are the Quant family which holds a majority stake in BMW and the Piech and Porsche families who own a majority of Porsche's shares. These owners tend to be committed to the traditional German productionist corporate governance orientation and have long associations with their founded firms (Kang & Sorensen, 1999). From an economic standpoint, founding family owners are highly invested in firm specific human capital and tend to be relatively wealthy (Maung, 1996). This combination may create a long term perspective and commitment to the status quo in the company and may also make family owners reluctant to give up control (Jara-Bertin et al., 2008). Family owners might not want to risk losing control by adopting good corporate governance practices and thereby attracting equity from the stock market. Furthermore, families tend to appoint other members of the family rather than external professional managers to key positions in the company (Fernandez & Nieto, 2006). The

immigration of external leaders who possess different skills, understandings, assumptions, and values has been linked to organizational change of institutionalized practices (Kraatz & Moore, 2002). Altruistic behavior and higher trust in relatives than in outsiders explains why family owners tend to rely on insiders in key management positions (Schulze et al., 2001). As such, it is likely not in the interest of families to voluntarily impose good corporate governance practices on their relatives and heirs. Taken together, national level pressures for governance reform will likely be resisted by powerful inside owners. Thus, I propose the following hypothesis:

> **H2: The size of a firm's equity stake held by a dominant inside owner will be negatively associated with the firm's level of responsiveness to a code provision that recommends to publish a director remuneration report.**

Equity ownership by corporations, insurance firms, and banks is an integral feature of the German corporate governance system. These owner types can be described as stable owners that tend to pursue strategic rather than financial interests towards the firm in which they hold equity (Aguilera & Jackson, 2003; Gedajlovic et al., 2005). In addition to the equity tie, these stable owners tend to have multiple other business relationships with the firm. Stable investors are often also alliance partners, buyers, suppliers, or creditors. For example, insurance firms may hold shares in their clients so they get the pension fund business. Corporate owners may hold equity in other firms so that they can stabilize technology and product transfer flow. Bank owners as debt and equity providers have traditionally provided "patient capital" to firms (Juergens et al., 2000a). The equity holdings of stable owners are often reciprocated, particularly in the case of non-financial firms, which leads to the establishment of cross-holdings that are characteristic for the German corporate governance system (Adams, 1999). Recent research has shown that cross-holdings between non-financial firms have remained relatively stable even after the capital gain tax reform in 2002 that I have outlined earlier. This can be interpreted as an indication of the

strategic value of equity interlocks (Weber, 2009). Because of these relationships, stable owners are likely to be interested in protecting management's autonomy from outsider shareholders. They are likely to be more interested in global profitability, steady growth, and stable relationships than in short-term gains and profit maximization. For stable owners, many provisions as recommended in codes may be redundant because of their close ties to their investment targets. Because of the close relationships that stable owners have established they enjoy access to critical insider information about the governance in partner or client firms. The adoption of provisions regarding disclosure in particular might be at odds with the interests of this owner group because (1) it is costly to do so, (2) it may reveal poor managerial decisions, and (3) additional disclosure will benefit competitors (Bettis, 1983). Hence, national level pressures towards corporate governance reform along shareholder value oriented lines will likely be resisted by this ownership group. Thus, I propose the following hypothesis:

> **H3: The size of a firm's equity stake held by a dominant stable owner will be negatively associated with the firm's level of responsiveness to a code provision that recommends to publish a director remuneration report.**

Equity holdings by market oriented investors such as institutional investors (e.g., mutual and pension funds) have been linked to the emergence of shareholder value orientation in firms (Useem, 1996). Not only at the firm level but also at the political and the national regulatory level, institutional investors play an increasingly influential role in German corporate governance (Juergens, Rupp, & Vitols, 2000b; Lane, 2004). For example, CalPERS or DWS, two of the world's largest investment funds, have published corporate governance market principles for Germany and lobby for their implementation at the national regulatory level (CalPERS, 1999; Cromme, 2002b). These attempts to shape the regulatory context for their investments are understandable, given that these investors' usually low equity holdings in firms weakens their

ability to influence management directly. Nonetheless, firms may be sensitive to the demands and interests of these investors. Compared to inside and stable owners who hold equity primarily for long-term business relationship purposes, institutional investors operate at arm's length and are typically tied to the firm only with their equity holdings and hold stocks primarily for investment purposes (i.e., they operate at arm's length with firms). Therefore, these investors will be less than hesitant to sell their equity stakes when their interests are not met (Jackson & Moerke, 2005). However, market oriented owners' interests include both short term and long term profit maximization. For example, pension funds typically seek long term investment returns. In contrast to mutual funds, pension funds usually seek to influence firms via their voting rights rather than simply selling their shareholdings when they are not satisfied with the investment returns (Useem, 1998). In both cases, managers will seek to maintain legitimacy with these market oriented institutional investors and engage in behavior that is consistent with their objectives. Therefore, the presence of market oriented investors in firms will amplify national level pressures for corporate governance reform. Thus, I propose the following hypothesis:

> **H4: The size of a firm's equity stake held by a dominant market owner will be positively associated with the firm's level of responsiveness to a code provision that recommends to publish a director remuneration report.**

Firm owners can also be meaningfully differentiated according to their geographic location (Dahlquist & Robertson, 2001; Douma, George, & Kabir, 2006). Foreign owners may have interests in promoting corporate governance practices consistent with the rules, values and beliefs that they find to be normative legitimate in the context of their international operations. Foreign owners have also been found to attempt to impose the norms that dictate their legitimacy in their own national context on companies in which they hold equity stakes (Alakent & Lee, 2010). Since foreign owners are likely weakly tied to domestic responsibilities they might be

more open to demand changes in corporate governance arrangements of firms. Therefore, the presence of a foreign owner in a firm could strengthen national level pressures for governance reform, especially in Germany, where the code was developed with the specific goal of promoting the interests of international investors (Cromme, 2002b). In contrast, domestically owned firms are likely to be embedded in traditional German institutions and interested in maintaining in the status quo. As discussed above, a characteristic of the German corporate governance system is network multiplicity, which means that firms tend to access resources via multiple relationships from other domestic organizations. This embeddedness may cause inertia and make firms reluctant to implement risky changes that are at odds with prevalent institutions because this could damage their legitimacy and consequently limit their access to important resources via domestic relationships. Therefore, domestic owners are likely to insist on maintaining institutionalized practices and consequently attenuate national level pressures for governance reform. Thus, I suggest the following hypothesis:

> **H5: The size of a firm's equity stake held by a dominant foreign owner will be positively associated with the firm's level of responsiveness to a code provision that recommends to publish a director remuneration report.**

The Role of Labor Representatives as Issue Interpreters

Representatives of labor as core firm stakeholders, be they work councils or trade unions, can reinforce, buffer, and translate national level pressures for governance reform and influence change at the firm level (Roe, 2003). Jackson, Hoepner, and Kurdelbusch (2005) provide a framework for understanding the influence of labor on a firm's internal corporate governance arrangements. They point out that there are three types of governance coalitions that labor can enter. Each highlights different conflict lines and constellations that likely affect a firm's response to pressures for reform. Jackson et al. (2005) distinguish between three types of conflicts: class

conflict, in which labor on the one side is in conflict with management and shareholders on the other side; insider-outsider conflict, in which managers and employees have similar interests vis-à-vis shareholders; and accountability conflict, in which labor and shareholders on the one side are in conflict with management on the other side. With respect to what above was described as the communicative dimension of shareholder value orientation, labor is likely to share shareholders' interests. To accomplish the goal of codetermination, that is to monitor and control economic power, labor representatives need transparency and accurate company information. For example, although U.S. GAAP/IAS are typically viewed as shareholder oriented practices, they may also be perceived by labor representatives as tools to increase transparency and accountability of management (Boersch, 2007). Especially since the near bankruptcies of Metallgesellschaft AG in 1994 and Holzmann AG in 2002, unions and work councils in Germany have supported the adoption of international accounting standards and repeatedly demanded reforms of the intransparent German Commercial Code (Hoepner, 2002).

With regard to the operational and the compensation dimensions of shareholder value orientation, labor is likely to stand in conflict with management and shareholders. A shareholder value approach in operations suggests that business portfolio decisions are to be made based upon the discounting of future cash flows of investment decisions and the implementation of divisional or corporate profitability goals. However, German labor has traditionally been committed to diversified quality production, which is at odds with an active portfolio strategy (Boersch, 2007; Jackson et al., 2005). Therefore, pressures to operationally implement shareholder value orientation with value based management concepts like EVA, DCF, CFROI, or ROIC are likely to be resisted by German labor representatives.

Value-based management systems are frequently coupled with stock option pay for management (Fiss & Zajac, 2004). Since 1996, when the first companies implemented stock option programs, labor has been criticizing this type of management remuneration and associated with it the trend towards escalating compensation (Du Plessis, 2004). German labor has traditionally been committed to keep wage differentials between top management and production employees small (Jackson et al., 2005). Nonetheless, labor representatives share the view of shareholders that top management's pay should be variable according to the level of company success. Whereas performance-oriented compensation for managers is in general not incompatible with the demands of labor, stock option pay based upon profitability goals is incompatible with labor demands (Jackson et al., 2005).

Taken together, if labor is given sufficient power within firms, it will reinforce national level pressures for governance reform in the communicative dimension of shareholder value orientation at the firm level. Thus, I suggest the following hypothesis:

> **H6: Labor power will be positively associated with a firm's level of responsiveness to a code provision that recommends to publish a director remuneration report.**

The Role of Top Management Team Members as Issue Interpreters

Top management is the stakeholder group that holds positions of strategic leadership in firms. Oliver (1991) and Greenwood and Hinings (1996) acknowledge the important role of organizational leaders in institutional change. They point out that top managers are often the protectors and promulgators of institutional norms and values and the makers and enforcers of formal institutional rules. As this study attempts to explain firm responsiveness to institutional processes, it is important to consider the values, interests, and beliefs of top managers. Larger institutional processes in the evolution of corporate governance systems filter down on leaders

and affect organizations through them and through the managerial ideology they hold. Scott (2001) noted on this relationship: "It is important to recognize that cultural beliefs are carried in the minds of individuals. They exist not only in the wider environment ... but also as ideas or values in the heads of organizational actors" (p. 53). Thus, the values and beliefs of top managers are likely to be instrumental in their decisions with regards to how to respond to institutional processes and change. The literature on upper echelons (Hambrick & Mason, 1984) offers a supporting rationale for this argument. Upper echelons theory portrays organizations largely as a reflection or extension of the values, beliefs, and abilities of their leaders. These values, beliefs, and abilities are shaped by executive experiences. The nationality of a top manager, for example, may be a strong determinant of his or her executive experiences. Executives who have spent their entire careers in one particular country can be assumed to have relatively limited experiences and knowledge about international corporate governance practices and standards and current developments in this realm. A manager who is not a citizen of the host country in which he or she is a member of a firm's top management team is more likely to have knowledge and experiences about corporate governance practices outside his or her host institutional context compared to top management team members that lack such a background. The experiences and perspectives that foreign nationals bring into a firm's top management team may weaken historically rooted cultural biases about local corporate governance practices and increase the likelihood that those managers bring into their teams a more independent and less biased assessment of the benefits, the costs, and the consequences of potential practices. Taken together, firms with top managers who are foreign nationals are more likely to respond to corporate governance practices that are at odds with the prevalent domestic managerial logic. Based on the theoretical arguments presented in this section, I suggest the following hypothesis:

H7: The number of foreign top managers on a firm's board will be positively associated with the firm's level of responsiveness to a code provision that recommends to publish a director remuneration report.

Organizational Learning Processes

Besides the question regarding how a firm's critical stakeholders, including the upper echelons, labor, and capital providers influence its responsiveness to corporate governance reform pressures, an institutional perspective also raises the question regarding compatibility and fit between the diffusing reform practices and a firm's general orientation to reform opportunities presented by the external environment (Fiss, 2008). In this section, hypotheses will be developed building upon the feedback loop depicted in figure 1, which suggests that a firm's past decisions regarding corporate governance reform become a part of a firm's internal decision making environment and influence future reform efforts. The mechanism underlying this feedback loop is organizational learning which occurs through organizational routines that are repeated and modified and which is organized by schemas that help the organization assimilate, process, and interpret information (Levitt & March, 1988; Prahalad & Bettis, 1986). The organizational learning literature distinguishes between two types of learning: First-order learning and second-order learning. First-order learning is a routine, incremental process within the existing schema that maintains stable relations and sustains existing rules, resource allocations, and the terms of organizational politics. It contributes to social and structural inertia because it anchors an organization to its past even in the face of changes and reform processes in its larger institutional environment (Newman, 2000; Virany, Tushman, & Romanelli, 1992). Second-order learning involves a shift in assumptions and decision making premises that can change local meaning frameworks or logics that guide the interpretation and evaluation of environmental conditions and fosters the incorporation of compatible elements available in the external environment. It

constitutes a break from history and involves the unlearning of prior premises and the search for new interpretive schema and new routines (Newman, 2000; Virany et al., 1992). Organization learning, then, is related to the evolvement of a firm's corporate governance arrangements as environmental conditions change and become more heterogeneous. Lant and Mezias (1992) argue that second-order learning in organizations is triggered by experiences that cannot be ignored and cannot be understood or interpreted by the existing schema. The subsequent set of hypotheses builds upon the argument that the past adoption of practices in different dimensions of shareholder value orientation can be fundamental levers for triggering second-order learning and influence a firm's responsiveness to the issuance of a code provision. The two issues are central in this section: first, the degree of consistency and compatibility of code provisions with a firm's internal logics, routines, and past experiences (i.e., the content of pressures); second, the degree of social legitimacy attainable from conformity to external institutional pressures (i.e., the cause of pressures).

Prior Adoption of Practices in the Communicative Dimension of Shareholder Value Orientation

An institutional view on firm responsiveness to the issuance of a code provision recognizes that code provisions do not diffuse into an institutional void. In the German context, code practices and their underlying logic diffuse into an environment and into firms that have previously been exposed to practices in various dimensions of shareholder value orientation. As highlighted above, German firms had adopted shareholder value oriented practices before the code was published. As such, the question arises in how far code provisions can be characterized as innovations that constitute de-novo institutionalization of practices. The diffusion of innovation literature defines an innovation as "… an idea, practice, or object that is perceived as new by an

individual or other unit of adoption" (Rogers, 2003, p. 12). Thus, the adoption decision by firms may not depend on whether or not an innovation is objectively new or not. An important attribute of a code provision that influences firm responsiveness is its compatibility (Strang & Soule, 1998). "Compatibility is the degree to which an innovation is perceived as consistent with the existing values, past experiences, and needs of potential adopters" (Rogers, 2003, p. 240). This implies that innovations are evaluated on their compatibility to previously adopted ideas and practices. To understand how compatibility of practices affects firm responsiveness it is helpful to draw from research that examines the disembedding and re-embedding processes during practice diffusion (Love & Cebon, 2008; Strang & Meyer, 1993). Based upon this research it can be argued that code practices are first disembedded after their issuance by the code agency because it is not so much the practices that diffuse and filter down to the firm level, but it is rather representations of the practices – namely ideas (e.g., texts, presentations, the language of provisions, etc.) – that do so. Actors in firms then re-embed these ideas and translate and modify them in the light of existing practices, values, beliefs, interests, and experiences. During this re-embedding process the adoption decision is influenced by compatibility. Thus, previously adopted ideas and practices shape local dominant logics, meaning frameworks and attention structures and consequently influence decision makers how they assess innovations and assign meaning to them (Ocasio, 1997). An example of this process is the finding of Washington and Ventresa (2004) that U.S. colleges and universities were more likely to incorporate the intercollegiate sports programs ice hockey, lacrosse, and basketball if they had previously established a football program. Similarly, Sanders and Tuschke (2007) find that German firms who had successfully adopted institutionally contested shareholder value oriented practices in the past were more likely to engage in further adoptions of contested practices. These examples are illustrations of second-

order learning in that the firms in those studies demonstrated increased behavioral variability and experimentation rather than inertia.

In the context of this study, it is important to recognize that shareholder value orientation is a multi-dimensional concept and that code provisions might differ in the degree to which they are compatible with previously adopted practices in those dimensions. As pointed out above, the adoption and spread of practices commensurate with shareholder value orientation could be observed in the three dimensions of the concept before the code was issued. In terms of the compatibility argument made here, previous practice adoption in the communicative dimension and the compensation dimension are of particular importance to the code practice examined in this study. The communicative dimension of shareholder value orientation refers to the dissemination of transparent information to outsiders (Hoepner, 2001). Traditional German accounting standards, based upon the German Commercial Code (HGB), give management substantial discretion in reporting financial results (Boersch, 2007). Since 1998, German AGs have been allowed to use more stringent and transparent International Accounting Standards (IAS) or U.S. Generally Accepted Accounting Principles (U.S. GAAP) instead of the intransparent insider-oriented HGB accounting and disclosure rules. The previous exposure of firms to the underlying logic of IAS and U.S. GAAP practices might have established a local meaning framework and routines that accentuate increased firm transparency. This learning process then might render the code provision director remuneration reporting to be a compatible practice. Therefore, I formulate the following hypothesis:

> **H8: A firm's previous adoption of a practice in the communicative dimension of shareholder value orientation will be positively associated with the firm’s level of responsiveness to a code provision that recommends to publish a director remuneration report.**

Prior Adoption of Practices in the Compensation Dimension of Shareholder Value Orientation

Taking into account the larger institutional context of firms, the various dimensions of shareholder value orientation may not necessarily be compatible. In the German context, the previous adoption of practices in the compensation dimension of shareholder value orientation, especially the adoption of executive stock option plans (ESOs), may decrease the perceived compatibility of a code provision in the communicative dimension if it exposes the adoption and use of ESOs. Although ESOs are a regulatory legitimate practice in Germany since 1998 (see table 2), the practice's normative and cultural-cognitive legitimacy is mostly limited to corporate managers and management consultants (Koeberle-Schmid, 2004). In his seminal book, Rappaport (1986, 112-113) described executive compensation as the critical moment of shareholder-oriented company policy and called stock option plans the most important distinctive feature between shareholder oriented and non-shareholder oriented companies. As such, the adoption of ESOs constitutes a clear signal of firms that they depart from the traditional German governance model. Although ESOs have diffused in Germany (Chizema, 2010; Sanders & Tuschke, 2007) and legislation in 1998 has lessened the counternormative nature of the practice, ESOs remain strongly contested and still enjoy limited legitimacy among many firm stakeholders. Since the regulatory legitimation of ESOs, labor unions, the business media, political party officials, and investor advocacy groups, have argued that ESOs do not serve shareholders' interests, have damaging effects on shareholder wealth, and in general do not reduce agency conflicts (Albach, 2004; Balzli, Hawranek, & Pauly, 2004; Haertel, 2004; Koch, Raible, & Stadtmann, 2011). As such, the adoption of a code provision that exposes that a firm uses this contested practice may be incompatible with the firm's need for legitimacy with stakeholders in its larger environments (DiMaggio & Powell, 1983). Current trends are indeed not favorable for ESOs. Only six years

after regulatory changes that allowed the implementation of ESOs, several of Germany's largest companies including GFK, Deutsche Telekom, and Daimler Benz have abolished their ESO programs.

During the process of the initial diffusion of ESOs, firms faced conflicting demands. While ESOs gained legitimacy among corporate managers, regulators and consulting firms, other stakeholders such as investor advocacy groups, the business media, or labor unions remained in favor of the traditional German model of executive compensation and contested this practice (Cheffins, 2001; Edwards, Eggert, & Weichenrieder, 2009). The demand for reform of management compensation came therefore mainly from firm internal actors whereas the primary source of resistance for reform was external. Since the disclosure of ESO schemes was not mandatory, this condition may have led many firms to engage in a form of decoupling where firms perpetuated and maintained stability and conformity in their rhetoric with external actors while they actually implemented substantial changes in their governance routines and practices and adopted ESOs. This form of decoupling, namely actions without words, is consistent with Oliver's (1991) argument that firms, as a strategic response to institutional pressures, may engage in actions that signal compliance while at the same time attempt to disguise nonconformity (i.e., engage in window-dressing and produce words without actions). Although ESOs diffused in Germany, this process unfolded quietly and most firms covertly adopted the practice. Therefore, the previous adoption of ESOs may be incompatible with a code provision that would widely and in detail expose the adoption of this institutionally contested practice. In other words, second-order learning may be inhibited. Not all prior experiences are equally driving second-order learning processes. Firms that adopt contested practices may prefer to hide them. Based on the theoretical arguments presented in this section, I suggest the following hypothesis:

H9a: A firm's previous adoption of a practice in the compensation dimension of shareholder value orientation will be negatively associated with the firm's level of responsiveness to a code provision that recommends to publish a director remuneration report.

Although reasonable, the arguments underlying the previous hypothesis might underestimate the strength of second-order learning processes in changing core organization assumptions and decision making premises. Firms that successfully adopted institutionally contested practices in the past may have developed routines for implementing and defending further institutionally contested practices. These firms may have gained experience in dealing with the opposition of various stakeholder groups and as such they may have learned how to maneuver through similar contested situations in the present and future (Sanders & Tuschke, 2007). Furthermore, the previous adoption of contested practices may have changed and developed alternative local action structures and meaning frameworks from which new understandings can emerge (Washington & Ventresa, 2004). Managers may have developed an understanding of the complementarity of disclosure and ESOs. For example, managers who hold ESOs may in fact be interested in providing more transparency to stakeholders and to disclose private information to increase the liquidity and to correct potential undervaluation of the firm's stock. In the event that the disclosure of ESOs leads to conflicts with constituents, experienced firms have developed established routines to maneuver their way through this contested situation. Therefore, I suggest the following alternative hypothesis:

H9b: A firm's previous adoption of a practice in the compensation dimension of shareholder value orientation will be positively associated with the firm's level of responsiveness to a code provision that recommends to publish a director remuneration report.

Acquiescence to the Institutional Logic Underlying Reform Pressures

Corporate governance codes consist of a set of related provisions that are issued concurrently. The German corporate governance code, for example, includes more than 80 provisions that share the underlying logic of increasing firm transparency and promoting the trust of investors (Cromme, 2002a). The literature on the diffusion of organizational practices provides evidence of multiple interdependent practices diffusing at the same time. For example, Rao, Monin, and Durand (2003, 2005) show in two studies how the nouvelle cuisine movement in France led elite chefs to abandon the classical cuisine. They found that the logic of nouvelle cuisine is comprised of a set of related practices such as chef autonomy, menu shortness, freshness of ingredients, orderly and economical cooking processes, transgression, and acclimatization. Similarly, Shipilov, Greve, and Rowley (2010) show that the logic of board reform in Canada included a related set of practices such as director independence, formal board evaluation, and individual director performance evaluation. These studies point out that if a particular reform logic comprises multiple related practices, the adoption of these practices positively influences a firm's adoption of other practices from the same logic. The underlying processes are related to the issue of organizational learning and compatibility and refer to the previously discussed feedback loop. Firms that have adopted a high number code provision are likely to have accepted the code's underlying logic and the problems it addresses (i.e., promoting transparency and increasing trust of investors in the firm). A local dominant logic (i.e., how do we go about reforming our firm's corporate governance) can emerge from experience with these practices (Prahalad & Bettis, 1986). This logic then redefines the terms of organizational politics. Firm stakeholders who are in favor of this reform logic will gain political power to further influence related change. They might also allocate and commit resources to promote the logic

further inside the firm (e.g., establish and staff a code compliance office etc.) and establish other routines that create precedent for further reform. As such, these firms will be more receptive and attentative to the issuance of other code provisions that build upon and extend the same logic. Hence, I formulate the following hypothesis:

> **H10: A firm's previous degree of acceptance of the institutional logic underlying the code will be positively associated with the firm's level of responsiveness to a code provision that recommends to publish a director remuneration report.**

Social Context: Cohesion and Structural Equivalence

Figure 1 depicts that firms' reform efforts do not only feed back into their internal decision making environment but also feed back into their immediate external social environment. From an embeddedness perspective, this suggests that national level pressures for governance reform are mediated by firms' immediate social context as determined by social network ties (Granovetter, 1985). Thus, firms' level of responsiveness to national pressures for governance reform may also be influenced by information that firm managers and directors obtain from others who are similarly situated in a social structure, by their network ties to leaders in interconnected firms, or by change agencies. Theoretically, this source of normative and mimetic pressure for change or continuity in corporate governance contains elements of both institutional theory and social network theory. Both perspectives will be integrated in the subsequent paragraphs. A such, this section will develop hypotheses that predict that a firm's degree of environmental interconnectedness with its institutional environment via interlocks and structural equivalence and the diffusion of norms and practices throughout a field by means of voluntary diffusion function as determinants of a firm's level of responsiveness to reform pressures.

Affiliations With the Source of Reform Pressures

Institutional entrepreneurs pursue their interests not only via the previously hypothesized resource dependencies but also via the cooptation of actors and the establishment of new inter-actor relationships (Hardy & Maguire, 2008). Code agencies can provide social exchange platforms for actors to engage with other actors in the field, which may bring about change induced by collective processes. The importance of membership organizations for institutional change has been recognized earlier by Powell and DiMaggio (1991), who view them as "… vehicles for the definition and promulgation of normative rules about organizational and professional behavior" (p. 71). As described above, codes often include a variety of practices that are contested in an institutional environment. As such, recommended provisions may not be understood by the addressees in a field as coming from inside their corporate governance system and, therefore, encounter legitimacy challenges (Sanderson et al., 2010), which can lead firms to adopt different resistance strategies in response to the issuance of these provisions. However, institutional theorists argue that exposure to practices that depart from or expand on the logic of traditionally used practices can result in a reevaluation of attitudes and assumptions about these practices (Greenwood & Hinings, 1996). This reevaluation is especially likely when firms have affiliations with prestigious, high status institutional contexts and change agents (Podolny, 1993; Sanders & Tuschke, 2007). Code agencies are change agents that tend to enjoy a relatively high social status in their field (Aguilera & Cuervo-Cazurra, 2009; Lawrence et al., 2002). For example, the Government Commission on the German Corporate Governance Code was appointed by the Ministry of Justice and coopted several well connected and prestigious corporate managers, directors, and university professors in an effort to engage with members of the field rather than to confront them with new regulation, thereby avoiding overt conflict and resistance.

Code agencies, such as the German code commission are usually not democratically elected. In firms without representatives on code commissions it is more likely that managers and directors will contest the legitimacy of issued code provisions and perceive themselves to be code takers rather than code makers (Seidl, 2006). In their involvement in the work of code agencies, firm representatives of coopted firms become exposed to different values, perspectives, and beliefs about practices and learn about their underlying norms and efficiency rationales from other participating actors. These actors, as a group, might undergo a consensus formation process by persuading and reinforcing each other and, consequently, confer a normative taken for granted status on code provisions (Rogers, 2003). Therefore, firm representatives who are participating in the work of code agencies are more likely to be exposed to normative pressures exerted by their peers and divergence of opinion may be more difficult in the context of their continuous relations. However, firms' roles in code agencies are not always passive. Firms can also play more active roles and some firms and their representatives might attempt to actively influence and manipulate the very definition of how firms "shall" and "should" be governed, rather than to take their regulatory governance environment as exogenous (Carruthers, 1995; Demil & Bensedrine, 2005; Mezias, 1990). When involved in decision making processes in code agencies, managers of coopted firms can act to actively influence their firms' institutional environment and make it suitable to their needs. Carruthers (1995) suggested that "[o]rganizations are not only granted legitimacy; sometimes they go out and get it" (Carruthers, 1995, p. 324). As such, firms that have established affiliations with code agencies can influence the very definition of what good corporate governance constitutes. These firms can also draw other benefits from relations with code agencies. As pointed out above, code issuing agencies are usually composed of prominent managers and directors of prestigious and successful firms, representatives of institutional

investors, accounting and law professionals, and various other high profile experts, who confer relatively high social status and normative legitimacy to those agencies (Manager Magazin, 2008). Affiliations with high status code agencies can help firms to maintain as well as increase their own prestige and social status, which enables them to be different and to adopt contested practices (D'Aveni & Kestner, 1993; Podolny, 1993; Rogers, 2003; Washington & Zajac, 2005). Based upon the previous discussion, I suggest the following hypothesis:

> **H11: The existence of affiliations or exchange relationships between a firm and the code issuing agency will be positively associated with the firm's level of responsiveness to a code provision that recommends to publish a director remuneration report.**

Board Interlocks to Firms that Acquiesce to the Reform Pressures

When firms decide to adopt practices, their behavior feeds back into their social context and larger institutional environment. As such, the diffusion of code provisions can be viewed as a relational phenomenon that is highly social in nature (Rogers, 2003). Although there is a wide variety of conceptualizations of social structure (Still & Strang, 2009), research that investigates diffusion of corporate governance practices has relied on interlocking directorates to capture the social relationships between a firm and its network ties (Davis & Greve, 1997; Palmer et al., 1993; Sanders & Tuschke, 2007; Shipilov et al., 2010; Westphal & Zajac, 1997). As described above, network multiplexity is a distinct feature of the German business environment. Therefore, interlocking directorates might be of importance in firms' responsiveness to the issuance of code practices. "An interlocking directorate occurs when a person affiliated with one organization sits on the board of directors of another organization" (Mizruchi, 1996, p. 271). Board interlocks enable board members to "scan" their business environment for the latest practices that might fit their own firms' needs and opportunities, to observe how innovative practices are used in other

firms, and to witness the consequences of those practices (Mizruchi, 1996; Strang & Soule, 1998; Useem, 1984). With this information gathered from interlocks, firms may be able to reduce the uncertainty associated with new practices (Davis & Greve, 1997). Besides these processes that might lead firms to mimic an innovation from a network tie, expectations regarding the norms, values, and beliefs underlying practices and innovations travel through interlocks as well and may place normative conformity pressure on potential adopters (Lee & Pennings, 2002). The role of normative pressures is based upon the obligatory and moral bases of legitimacy (Scott, 2001). Drawing on the normative isomorphism argument in institutional theory, interlocking directorates support the transmission of norms among the corporate business elite, which is also sometimes referred to as the "inner circle" (Palmer & Barber, 2001; Useem, 1984). Business elites undergo a consensus formation process by persuading and reinforcing each other, and conferring normative taken for granted status on governance practices (Davis & Greve, 1997; Palmer & Barber, 2001). Likewise, prior adopters of code practices become strong advocates of these practices, whereas interlocked potential adopters learn about normative behavior and attempt to enhance their legitimacy by aligning their own and their firm's identity with the norm (Palmer et al., 1993). These mechanisms combine and interact so that practice innovations diffuse through the network of interlocking directorates. In the governance reform studies reviewed before and in related past as well as current social network research that examines the interlocking directorate as a conduit for practice adoption, the interlocking ties are generally treated as equivalent connections that uniformly affect adoption outcomes (Connelly, Johnson, Tihanyi, & Ellstrand, 2011; Shipilov et al., 2010). This, however, is problematic in that past research has suggested that "[f]or those interested specifically in interlocks […] we need to reconsider the implicit assumption that all interlocks share uniform importance" (Haunschild & Beckman, 1998, p. 842). This perspective

was echoed recently by Shropshire (2010) who criticized that "… existing research treats interlocks as homogeneous" (p. 247) and suggested to focus on the individual tie to better understand when an interlock is more or less influential. Similarly, Still and Strang (2009) suggest that not all network channels necessarily play an equally important role in diffusion. A diffusion channel is more likely to be influential if the channel is centrally involved in the adoption decision making process or if it is closely related to the organizational identity of the potential adopter. Indeed, the decision to adopt or not to adopt an innovative governance practice may depend on more than the extent to which a firm is connected to other firms that have adopted the practice. The ability and power of board members to initiate and facilitate the diffusion of practices in a focal firm might depend on their proximity to and involvement in the boardroom discussion and the decision making process of whether to adopt or not to adopt a practice (Shropshire, 2010). In the context of this study, I expect that the number of ties that the focal firm's speaker of the management board or the chairman of the supervisory board has to firms that have previously adopted a practice innovation to be more influential in the adoption process of a code provision in the focal firm than the ties of other directors on these two boards. This argument is in line with upper echelon theory (Hambrick & Mason, 1984) and it is reasonable because individuals in these two positions have high structural power which can translate into relatively more ability, influence, and potential in the focal firm to select issues that receive attention and to facilitate adoption (Finkelstein, 1992; Hambrick, 1981). It is more likely that the knowledge about normative behavior reaches the relevant conversation and decision processes in the boardroom via individuals in those two positions. Based on the theoretical arguments presented above, I formulate the following hypothesis:

H12: The number of firms that pursue an acquiescence strategy in response to the code provision that recommends to publish a director remuneration report with which a focal firm is connected by interlock ties via powerful directors will be positively associated with the focal firm's level of responsiveness to that code provision.

Board Interlocks to Firms that Defy Reform Pressures

The previous hypothesis suggested that board interlocks to firms that have adopted a code provision will positively influence the likelihood that the focal firm acquiesces or shows higher levels of responsiveness to the provision. This perspective is common in social network research. It relies on a contagion perspective of diffusion which is analogous to viral diffusion in which "healthy" nonadopters are infected through ties to adopters, but additional ties to nonadopters do not impact the chances that a nonadopter would be infected (Haunschild, 1993; Sanders & Tuschke, 2007). The previous hypothesis draws from this perspective, and I expand it to suggest that ties that are formed by positions of high structural power may have a stronger bearing on firm responsiveness than other interlocks.

As depicted in the research framework in figure 1 it is important to acknowledge the coexistence of processes of change as well as continuity in the interlocking directorate. Therefore, it is important to not exclude from consideration the firms that have not acquiesced to corporate governance reform because of their potential to limit and slow down reform processes. Unfortunately, the focus of corporate governance research is mainly on successful diffusion processes which can lead to an underestimation of the difficulties by which reform processes take hold. Recent research in the social network literature recognizes this concern and points out that "… scholars have yet to examine the potentially important effect of nonadopters on other nonadopters within the interlocking directorate" (Connelly et al., 2011, p. 690). However, to this needs to be added that there exists heterogeneity among nonadopters, and that firms can pursue a

wide range of nonadoption strategies (i.e., defiance, avoidance, or compromise). As suggested earlier, firms have a rationale for pursuing different nonadoption strategies in response to the issuance of a code provision. It can be assumed that the decision to choose a particular response strategy is the outcome of purposeful decision making. Firms do not pursue nonadoption strategies because the possibility of adoption has never occurred to them. In the context of this study, defiance is the most active response strategy to institutional processes and can be understood as a firm's attempt to defend its commitment to the institutional logic underlying traditional corporate governance practices and to reject and to challenge a competing corporate governance logic. This rationale may then feed into the decision making of interlocked firms. As depicted in figure 2, a defiance strategy involves overt contestation of institutional demands and the mobilization of political capital. This can be costly as well as risky for firms in that they may lose institutional support in the process (Pache & Santos, 2010). Avoidance and compromise, in contrast, can be considered weak and ambiguous forms of nonadoption, because these strategies aim at partially satisfying institutional referents and demands and, as such, positively acknowledge reform pressures (i.e., symbolically in the case of an avoidance strategy and truthfully in the case of a compromise strategy). Commitment to a particular logic is most likely signaled by the overt defiance of a conflicting logic. Further, nonadopters may serve as allies for other nonadopting firms in defending a particular logic. Interlocked firms that pursue defiance strategies may reinforce, affirm, and validate each others' rational for choosing this particular response strategy and confirm their decision to defend a particular institutional logic. In sum, network ties to firms that pursue a defiance strategy can place significant obstacles in the path of corporate governance reform. Based upon the theoretical arguments presented above, I formulate the following hypothesis:

H13: The number of firms that pursue a defiance strategy in response to the code provision that recommends to publish a director remuneration report with which a focal firm is connected by interlock ties via powerful directors will be negatively associated with the focal firm’s level of responsiveness to that code provision.

The Influence of Structural Equivalence

Beyond interlocking directorates (i.e., processes of cohesion) there are other social processes that can influence firm responsiveness to institutional processes. Burt (1987) argued that structural equivalence (i.e., the imitation of others that occupy a similar role in an environment) leads to rapid flow of innovative behavior even when information flow or direct ties, such as board interlocks, between firms are absent. Previous research has demonstrated that structural equivalence leads to similarity in behavior among firms who occupy a similar role in an environment and that the influence of structural equivalence may be even stronger than the influence of cohesion when it comes to firm responsiveness to innovative policies or practices (Ahmadjian & Robinson, 2001; Burt, 1987; Galaskiewicz & Burt, 1991; Sanders & Tuschke, 2007): "Once the occupants of his status begin adopting, ego [a focal firm] is expected to follow suit rapidly in order to avoid embarrassment of being the last to espouse a belief or practice that has become a recognized feature of occupying this status" (Burt, 1987, p. 1294). Firms that fail to adopt a certain prevalent belief or practice in their comparison group are more likely to experience embarrassment and a loss of reputation and legitimacy for being among the non-adopters. This reasoning is anchored in institutional theory and the concept of mimetic isomorphism. DiMaggio & Powell (1983) suggested that as a belief or practice becomes prevalent among those in one's comparison group, adoption becomes normative (i.e., the appropriate thing to do) independent of the technical rationale behind adoption. According to this view, imitation of structurally equivalent others can occur even in the absence of direct contact via board interlocks.

The most obvious comparison group for firms are competitors in the same industry. Firms in an industry are likely to have frequent interactions both directly and indirectly. Without assuming that firms are connected via board interlocks, being in similar relationship to other firms by competing in the same input and output market leads to high mutual awareness and interdependence (Still & Strang, 2009; Strang & Soule, 1998). Additionally, belonging to the same organizational field, firms in the same industry are likely to have common relationships to third parties outside the industry. For example, firms in the same industry tend to be influenced by the pressure of the same change agents and stakeholders, resulting in similar responses to the environment (Vasi, 2006). Additionally, from an institutional theory perspective, because isomorphism, per se, creates legitimacy, firms adopt a belief or practice adopted by many firms in their industry acquire legitimacy. With regards to the continuum of response strategies to institutional processes, the strategies of acquiescence and defiance signal strong commitment to particular logics of corporate governance. Acquiescence signals the affirmation of regulative, normative, or cultural demands underlying a market oriented corporate governance structure whereas defiance signals an overt rejection of the same demands and commitment to an insider oriented corporate governance structure. As discussed before, the strategies between these two ends of the response continuum are weak and ambiguous forms of non-adoption. Hence, I argue that the more prevalent strategies of acquiescence and defiance in a firm's industry the higher the likelihood that a firm will form strategies that lean towards those ends. Therefore, I propose the following two hypotheses:

> **H14: The number of firms that pursue an acquiescence strategy in response to the code provision that recommends to publish a director remuneration report within a focal firm's industry will be positively associated with the focal firm's level of responsiveness to that code provision.**

H15: The number of firms that pursue a defiance strategy in response to the code provision that recommends to publish a director remuneration report within a focal firm's industry will be negatively associated with the focal firm's level of responsiveness to that code provision.

Determinants of Early and Late Acquiescence to Corporate Governance Reform Pressures

Up to this point, the presented hypotheses focused on four groups of determinants that likely have differential effects on firms' level of responsiveness to the issuance of the director remuneration disclosure code provision: the influence of powerful stakeholders, compatibility with previous reform efforts, and the influence of social structure. Additionally, the above hypothesized mechanisms are likely to differ in importance over time and in their predictive strength of the likelihood that a firm acquiesces early or late to the issuance of the director remuneration reporting code provision. The following paragraphs will develop hypotheses that predict that the mechanisms that were hypothesized to positively influence a firm's level of responsiveness have asymmetric effects on firms' decisions to acquiesce to reform pressures early and late. An analysis of the characteristics of firms that respond to corporate governance reform pressures with early acquiescence is particularly important because early adopters of practices play an important role in the further diffusion of these practices (Rogers, 2003). Early adopters can be described as those firms that occupy a place as gatekeepers in the flow of innovations into a corporate governance system and that can help to facilitate the launch of reform practices. These early adopters provide legitimacy for a corporate governance practice and may help trigger a critical mass in the diffusion process (Davis & Greve, 1997; Kraatz, 1998; Strang & Soule, 1998; Tolbert & Zucker, 1983). In short, they play an influential role in determining whether reform efforts processes will take hold within a wider population of firms. Furthermore, firms that acquiesce late to reform pressures could provide interesting insights into what needs to change in

order for acquiescence to occur (Greenwood & Hinings, 1996). As argued previously and depicted in the theoretical model in figure 6, not all firms within a corporate governance system experience pressures for corporate governance reform in a similar way. Field level institutional processes in the evolution of corporate governance systems are interpreted, filtered down, and enacted differently by different firms, which leads firms to formulate different response strategies. This argument can also be made with respect to the pace by which institutional pressures for corporate governance reform permeate firm boundaries and the timing of formulating an acquiescence strategy early or late.

Determinants of Late Acquiescence

The two-stage-model of institutionalization (Tolbert & Zucker, 1983) provides an appropriate starting point to develop hypotheses about the characteristics of firms that acquiesce late to code provisions. Tolbert & Zucker (1983) argued that organizational change in later adopters follows symbolic and isomorphic patterns. As more firms adopt a code provision, the legitimacy of non-adopters is brought into question and firms feel increasing normative and mimetic pressures to acquiesce (DiMaggio & Powell, 1983). Several studies in the past confirmed these patterns. For instance, in studying the adoption of TQM programs, Westphal et al. (1997) found that early adopters customized TQM for efficiency gains, while later adopters gained legitimacy from adopting the standardized and normative form of TQM. Westphal and Zajac (1994) found a similar pattern in early and late adoption of long-term executive incentive plans, where early adopters were more likely to pursue alignment between CEO and shareholder interests substantively, whereas later adopters pursued legitimacy by symbolically controlling

agency costs. These studies suggest that contextual pressures to acquiesce to code provisions are likely to increase over time.

Ties via outside directors or executives to interlocked firms and the number of structural equivalent firms that have previously acquiesced to reform pressures and thereby place normative pressures on a focal non-adopting firm to acquiesce should have stronger effects among late adopters than among early adopters because (a) prior adopters are likely to promote the further adoption of provisions through their network contacts and (b) early adopters have smaller networks of prior adopters and (Burns & Wholey, 1993; Kraatz, 1998; Sanders & Tuschke, 2007). Similarly, structural equivalence effects should have a more pronounced impact on late adopters. As acquiescence as a response strategy to institutional pressures for reform becomes more common among a firm's structurally equivalent referents, normative and mimetic processes gain strength. As argued previously, firms that fail to adopt a prevalent response strategy in their reference group are likely to experience embarrassment and a loss of reputation and legitimacy for being among the non-adopters. Consequently, I formulate the following hypotheses:

> **H16a: The number of firms that pursue an acquiescence strategy in response to the code provision that recommends to publish a director remuneration report with which a focal firm is connected by interlock ties via powerful directors will have stronger effects among late adopters of the provision than among early adopters.**

> **H16b: The number of firms that pursue an acquiescence strategy in response to the code provision that recommends to publish a director remuneration report within a focal firm's industry will have stronger effects among late adopters of the provision than among early adopters.**

Determinants of Early Acquiescence

The two-stage-model of institutionalization (Tolbert & Zucker, 1983) also provides an appropriate starting point to develop hypotheses about the characteristics that lead firms to react with early acquiescence to the issuance of a code provision. According to the model, early

adopters are driven by an efficiency rational, evaluate an innovative practice on the basis of its technical merits, and adopt organizational practices for internal organizational requirements. This view reflects the strategic choice perspective on innovations, in which firms are argued to have an interest in maximizing efficiency and in matching environmental needs to their internal capabilities (Pfeffer & Salancik, 1978). Indeed several studies found that in later adoption phases, internal organizational characteristics become less meaningful in predicting change (Sanders & Tuschke, 2007; Westphal et al., 1997; Westphal & Zajac, 1994, 2001).

A firm's equity ownership structure can be expected to be a key indicator of a firm’s efficiency needs. When firms depend on powerful capital providers they seek legitimacy with these actors and actively respond to their demands and expectations to secure themselves access to their resources and to reduce uncertainty and transaction costs in their relationship with these actors. Driven by efficiency reasons, in response to resource dependencies on pro-reform oriented capital providers firms are likely to engage in early internal reforms (DiMaggio & Powell, 1983; Oliver, 1991; Pfeffer and Salancik, 1978). Thus, I formulate the following hypotheses:

H17a: The size of a firm’s equity stake held by a dominant government owner will have stronger effects among early adopters of a code provision that recommends to publish a director remuneration report than among late adopters.

H17b: The size of a firm’s equity stake held by a dominant market owner will have stronger effects among early adopters of a code provision that recommends to publish a director remuneration report than among late adopters.

H17c: The size of a firm’s equity stake held by a dominant foreign owner will have stronger effects among early adopters of a code provision that recommends to publish a director remuneration report than among late adopters.

The diffusion of innovations literature suggests that a firm’s social proximity to sources of innovations and to change agents predicts early adoption of innovations and early acquiescence to demands of change agents (Delmas & Montes-Sancho, 2010; Greve, 2008; Rogers, 2003). Firms

may have chosen to place their managers or directors on a code agency because they agree with the policy of the code commission. Therefore, those firms are more likely to be the first adopters of provisions initiated by the code agency. However, firms do not always volutarily join a corporate governance code commission. As discussed previously, intervention strategies by institutional entrepreneurs include the cooptation of central actors in a field. Firms that are coopted by a code agency are likely to be exposed to provisions that are at odds with traditional corporate governance logics prevalent in their local institutional context. If code issuing agencies enjoy a relatively high social status and prestige in their institutional context (Handelsblatt, 2009; Haxhi & v.Ees, 2010), firms participating in these agencies are more likely to reevaluate their attitudes towards and assumptions about innovative code provisions, which can result in an early adoption decision of practices that are promoted by the agency (Greenwood & Hinings, 1996). Also in the case of code provisions that are more in the individual interest of management rather than in the general interests of firms, the affiliation with a prestigious code agency may enable firms to differ from the status quo in their institutional environment and to adopt institutionally contested provisions early (Certo, Daily, & Dalton, 2001; Sherer & Lee, 2002). Taking these arguments together, I propose the following hypothesis:

> **H18: The existence of affiliations or exchange relationships between a firm and the code issuing agency will have stronger effects among early adopters of a code provision that recommends to publish a director remuneration report than among late adopters.**

External pressures for corporate governance reform can be strengthened by the firm internal representation of external demands for reform and by intraorganizational routines and dynamics (Greenwood & Hinings, 1996). Organizational members, such as executives or board members, and intraorganizational routines, such as a firm's prior adoption of reform practices,

interact with processes and changes in the external institutional context. These interactions should influence the likelihood as well as the timing of broader institutional reform pressures to take hold within firms.

Firms differ in the extent to which powerful internal organizational members promote different normative and cognitive templates. Labor representatives and top management team members are structurally powerful internal stakeholders that differ in their perception of which corporate governance practices are appropriate. As argued above, to accomplish the goal of codetermination, that is to monitor and control economic power, labor representatives traditionally demand high levels of corporate transparency and accurate company information. If labor is given sufficient power within firms, it will reinforce institutional pressures for governance reform in the communicative dimension of shareholder value orientation at the firm level. Therefore, I suggest the following hypothesis:

H19a: Labor power will have stronger effects among early adopters of a code provision that recommends to publish a director remuneration report than among late adopters.

Top managers that have affiliations with institutional contexts outside their primary domestic institutional environment should provide their domestic top management team early access and learning opportunities about innovative corporate governance practices. At the same time, a diverse top management team, in terms of national backgrounds, is also likely to be less biased towards local practices. These processes interact and should increase the likelihood that such firms will acquiesce to pressures to adopt director remuneration reporting early rather than late. Consequently, I suggest the following hypothesis:

H19b: The number of foreign top managers on a firm's board will have stronger effects among early adopters of a code provision that recommends to publish a director remuneration report than among late adopters.

Besides powerful intraorganizational stakeholders, established organizational routines also interact with change processes in a firm's external institutional context and can influence the timing of the formulation of an acquiescence strategy. The two-stage-model of institutionalization (Tolbert & Zucker, 1983) suggests that early adopters are driven by an efficiency rational, evaluate an innovative practice on the basis of its technical merits, and adopt organizational practices for internal organizational requirements. Indeed several studies found that in early adoption phases, internal organizational characteristics are meaningful predictors of organizational change (Sanders & Tuschke, 2007; Westphal et al., 1997; Westphal & Zajac, 1994, 2001). Recently, Cebon and Love (2002; 2008) suggested that when an innovation is compatible with a firm’s organizational culture early adoption will be more likely. Similarly, a firm’s previous adoption of a practice in the same policy domain as an issued code provision or a firm’s acceptance of the institutional logic underlying the corporate governance code are characteristics that make the early adoption of an issued provision more likely. Firms with those characteristics do not need a critical mass of local prior adopters or network contacts to reduce the uncertainty associated with the adoption of a code provision or to increase normative pressures to adopt. Instead, firms with these characteristics have developed routines that facilitate further change. These routines may also indicate the existence of absorptive capacity and receptivity for compatible ideas and practices (Cohen & Levinthal, 1990). As such, these characteristics describe an internal organizational decision environment that promote the early acquiescence to a code provision. Therefore, I formulate the following hypotheses:

H20a: A firm's previous adoption of a practice in the communicate dimension of shareholder value orientation will have stronger effects among early adopters of a code provision that recommends to publish a director remuneration report than among late adopters.

H20b: A firm's previous adoption of a practice in the compensation dimension of shareholder value orientation will have stronger effects among early adopters of a code provision that recommends to publish a director remuneration report than among late adopters.

H20c: A firm’s previous degree of acceptance of the institutional logic underlying the code will have stronger effects among early adopters of a code provision that recommends to publish a director remuneration report than among late adopters.

CHAPTER 5. ANALYTICAL METHODOLOGY

This chapter addresses several issues related to how the previously formulated constructs and hypotheses are operationalized and tested. First, a description of the data sources is provided. The second section of this chapter describes how the dependent, independent, and control variables are operationalized. Finally, the statistical techniques and the procedure for testing the proposed hypotheses are developed.

Data Sources and Sample

Since there exists no publicly-accessible database with detailed corporate governance information for German firms listed on the Frankfurt Stock Exchange, the creation of a unique hand-collected panel data set became necessary. The data sources consisted primarily of archival data, including the individual firms' annual business reports, firms' annual declarations of conformity, OSIRIS provided by Bureau Van Dijk, Compustat, the website of the Frankfurt Stock Exchange, the Hoppenstedt Aktienführer and the Commerzbank "Wer gehört zu wem?" data CD. Since the regulatory environment of financial companies differs significantly from that of non-financial companies, companies included in SIC6 were excluded. The panel data was collected over the observation period beginning in 2002 and ending in 2006, resulting in a balanced dataset including 945 firm year observations. Employing a survival analysis format required excluding observations after a firm adopted an acquiescence strategy, resulting in a total of 812 firm year observations. The first publication of a director remuneration report occurred in the year 2002, therefore, the analyses did not suffer from the problem of "left-censoring." This problem occurs when some firms in a population had already adopted the practice of interest at the beginning of the period under study. Two firms in the sample stated in their annual business reports that they

refused to adopt any of the provisions suggested by the German corporate governance code, but instead decided to publish their own code. This strategy is related to, but distinct from Oliver's (1991) response strategies (Okhmatovskiy & David, 2011). Thus, these firms were eliminated from the sample.

Definition of Measurements

This section describes all dependent, independent, and control variables and how they were measured. All independent explanatory and control variables were lagged behind the dependent variables by one year (t-1). This was necessary for three reasons: First, the influence of institutional factors on focal firms requires a certain time to gain strength. Second, consideration needs to be given to the time that firms take to respond to pressures and to publish their decisions in the annual business report or the compliance statement. Third, using a lagged structure to test the proposed hypotheses strengthens the internal validity of the study and reasonably mitigates possible criticisms on the existence of reverse causation problems (Bickman, Rog, & Hedrick, 1998).

Dependent Variables

To develop a dependent variable that captures the level of strategic firm responsiveness to pressures to reform director remuneration reporting, the following values were assigned to the strategic responses to the issuance of the director remuneration code provision identified in table 4: Acquiescence, 3; compromise, 2; avoidance, 1; defiance, 0. Firms that fully and completely adopted the code provision were categorized as pursuing an acquiescence strategy. Firms that did not fully adopt the provision, but instead adopted the provision only for some but not for all board

members were categorized as pursuing a compromise strategy. Firms that provided an explanation as to why they did not adopt the provision, signal symbolic acceptance of pressures and potentially avoid or lessen criticism that they are unresponsive. Those firms were categorized as pursuing an avoidance strategy. Firms that did not publish an explanation as to why they did not adopt the provision were categorized as pursuing a defiance strategy. As pointed out above, the analysis is limited to these four strategic responses since there was no opportunity to observe processes inside the governance commission that would allow a categorization of firms as code makers that pursue a manipulation strategy.

To test the hypotheses regarding early acquiescence and late acquiescence to reform pressures a new dependent variable was created. Although it may be difficult and debatable to exactly determine when early and late periods of adoption begin and end, I suggest that an early adopter can be reasonably defined as a firm that adopted the code provision before the year 2006. Again, in 2006 the German corporate governance code was revised and the "shall" status of the code provision was changed to a "must" status that included an opting-out option. In this year, the decision how to respond to the director remuneration reporting provision had to be publicly discussed and voted on during the annual general meeting. During the 2006 general meetings firms had to decide on a particular director remuneration arrangement and had to commit themselves to their decision until the year 2012. In 2012, remuneration reporting was again a matter of discussion during the annual general meetings. A late adopter was categorized as a firm that adopted after this status change. Non-adopters were coded as 0, early adopters as 1, and late adopters as 2 (the rationale for this coding will be described in the section on statistical techniques).

Independent Variables

The hypothesized predictor variables of strategic firm responsiveness to pressures for reform of director remuneration disclosure were measured as follows: To measure the size of the equity stake held by the various ownership types a variable was created that measured the degree of ownership concentration as a percentage of outstanding shares held by the dominant firm owner. As discussed above, the categorization of owners in government, inside owners, market owners, stable owners, and foreign owners is theoretically meaningful. Similar classifications have been used in previous studies (Gedajlovic et al., 2005; Pursey et al., 2009; Thomsen & Pedersen, 2000). The following five ownership categories were created: Dominant inside owner includes managers, founders, individuals, their immediate families and associated holdings/foundations. Dominant stable owner includes corporations, business partners, banks, and insurance companies. Dominant market owner includes mutual funds, pension funds, and investment trusts. Dominant government owner includes the federal and state government. Finally, the category dominant foreign owner includes foreign owners.

The influence of labor representatives on a firm's supervisory board was measured as the proportion of seats that employee representatives hold on the firm's supervisory board to the total number of seats on the supervisory board and was proxied with the variable labor power. The sample includes firms that are subject to varying degrees of labor representation, ranging from zero to more than one-half. This also allows to test whether any employee representation has an effect on governance reform relative to no representation.

To determine whether a board member was a German national, I searched the Hoppenstedt Aktienführer database that includes biographies of company board members. I created the

variable foreign top management, measured as the ratio foreign board directors divided by the total number of all board directors.

In the late 1990s several German firms had begun to use U.S. international accounting standards instead of the insider oriented traditional German accounting standards. The previous adoption of a practice in the communicative dimension of shareholder value orientation was measured as the dummy variable US GAAP/IAS which was coded 1 if a firm had adopted U.S. GAAP or IAS in the previous year.

Previously adopted practices in the compensation dimension of shareholder value orientation was measured with the dummy variable named stock option schemes. The information published in the footnotes of the annual financial reports was used to indicate with 1, a firm's prior adoption of stock option schemes, and 0, otherwise.

A firm’s degree of acceptance of the institutional logic underlying the corporate governance code was termed code logic acceptance and operationalized by calculating the ratio of the number of adopted provisions divided by the total number of provisions that comprise the code. The full set of provisions that comprise the code was considered.

A dummy variable was created to capture the existence of affiliations between a firm and the source of reform pressures. The indicator variable tie to code commission was coded 1 if one or more directors of the firm’s management board or supervisory board sat on the Government Commission for a German Corporate Governance Code, and 0, otherwise.

To capture the competing influences in the interlocking directorate four variables were created. First, the variable CEO ties to adopters was operationalized as a firm's CEO's (i.e., the speaker of the management board) total number of board seats that he or she occupied at supervisory boards of other firms that had previously used an acquiescence strategy in response to

the code provision that recommended to publish a director remuneration report (this is called sent interlock). Second, the variable BOD chair ties to adopters captured a firm's supervisory board chairman's total number of board seats that he or she occupied at other firms that had previously used an acquiescence strategy (this is called received interlock). Third, the variable CEO ties to defiers measured a firm's CEO's (i.e., the speaker of the management board) total number of board seats that he or she occupied at supervisory boards of other firms that had previously used a defiance strategy (this is called sent interlock). Fourth, the variable BOD chair ties to defiers measured a firm's supervisory board chairman's total number of board seats that he or she occupied at other firms that had previously used a defiance strategy (this is called received interlock).

For tests of structural equivalence, the variables industry adoption and industry defiance were created and measured as the number of firms within the same industry group as a focal firm that had previously pursued an acquiescence or a defiance strategy. As suggested by Davis (1991), because of the skewed distribution of the number of interlocks by firm, the measures used in the analyses for all interlocks are the natural logs of the number of interlocks plus unity. This procedure allowed valid values for firms with zero interlocks.

Control Variables

To further strengthen the internal validity of the study, several variables were included as controls to account for alternative explanations for the proposed hypotheses:

The standard perspective of legal and financial scholars on corporate governance reform is that globalization pressures force firms to adopt shareholder value strategies to avoid being driven out of the market (Coffee, 1999; Hansmann & Kraakman, 2001; Jensen, 1993). The perspective

advocated in this study goes beyond the effects of impersonal economic market pressures. Therefore, the study controls for pressures suggested by the legal/economic view:

German companies might come under increasing pressure to reform their corporate governance along shareholder value oriented lines if they are exposed to international financial markets via cross-listings (Coffee, 1999). Therefore, the study controls for the listing of securities via ADRs and GDRs. The dummy variable foreign listing was created and coded 1 if a firm had issued ADRs and/or GDRs, and 0, otherwise.

According to Jensen (1993, p. 850), competition in product markets, particularly international competition makes firms to focus on efficiency and to act in the interests of shareholders. Allen and Gale (1998) added that the product market plays the role of the (restricted) market for corporate control. A commonly used measure of internationalization and exposure the international product markets is the ratio of foreign sales to total sales (Fiss & Zajac, 2004; Sullivan, 1994). The variable foreign sales was created to measure a firm's exposure to international product markets.

Although the Vodafone-Mannesmann hostile takeover, which was one of the largest acquisition deals in world business history, took place in Germany, the market for corporate control in Germany is very limited (Hoepner & Jackson, 2006). As discussed earlier, the main reason is that the vast majority of firms have a large controlling shareholder. However, it is still possible that dispersed shareholdings - and free float - may be associated with the threat of a hostile takeover and therefore generate shareholder value orientation (Jensen, 1993). Therefore, the study controlled for free float as a measure to capture a firm's exposure to the market for corporate control, and was measured as the proportion of shares that are held by investors who are

likely to be willing trade. Free float is therefore a measure of how many shares are reasonably liquid. It excludes those shares held by the five groups of strategic shareholders defined above.

Prior research suggests that firms are more prone to change at different ages (Hannan & Freeman, 1984). Older firms tend to be more inert and more rooted in their established practices and therefore initially more likely to resist reform pressures (Peng, 2004). In contrast, younger firms may be more responsive to reform pressures because they need to establish their legitimacy and overcome their “liability of newness” (Freeman, Carroll, & Hannan, 1983, p. 692) by conforming to the demands of their new environment. Firm age was measured as the natural logarithm of the observation year minus the founding year of the listed firm.

Large firms are more visible and receive more attention from stakeholders. They may therefore be held to higher standards of institutional compliance than smaller ones (Ingram & Simons, 1995). Further, the adoption of corporate governance codes can entail significant implementation costs (Aguilera et al., 2008). Large firms tend to have a greater resource base, which may make it easier for them to adopt code provisions, make the necessary organizational changes, and publish extensive compliance reports. Firm size was proxied by the natural logarithm of firm sales.

Performance problems can lead to the deinstitutionalization of established practices and function as a trigger for reform (Ahmadjian & Robinson, 2001; Oliver, 1992). Firms may be more responsive to governance issues when their financial performance has deteriorated. Prior performance was measured with an accounting-based measure of firm profits (i.e., ROA).

Differences in intensity of competition in an industry and the maturity of an industry may affect a firm’s responsiveness to reform pressures. The study followed the procedure used by Tuschke and Sanders (2003) to account for effects associated with industry membership. First,

dummy variables were created to indicate broad industry categories. Industry membership was specified according to the SIC codes provided by OSIRIS. Next, a baseline regression analysis determined whether any industries had significant effects. Finally, for any industries that had significant effects in the industry-only models, those dummy variables were included in the full models.

A firm's responsiveness to governance reform pressures may also depend on its degree of embeddedness in the network of interlocking directorates. Previous research indicates that centrality in this network increases a firm's visibility (Davis, 1991). Following Davis and Greve (1997), the study controlled for a firm's network centrality, which was calculated as the natural logarithm of the total number of ties a firm had with other firms in the sample plus unity. This measure is suggested by Davis (1991) and allows valid values for firms with zero ties.

A firm's previously adopted response strategy to pressures for corporate governance reform may smoothen the path for further reform efforts but also present an obstacle for further reform. Two dummy variables were created to control for a firm's previous response strategy: Previously followed avoidance strategy and previously followed compromise strategy. The reference category was whether a firm had previously pursued a defiance strategy.

Finally, I control for changes in the regulatory pressure underlying the code provision with the indicator variable post reform. Institutional pressures for reform can be strengthened by means of regulatory reinforcement of normative and cultural expectations underlying reform pressures (Scott, 2001). In the year 2006, the code commission, with the backing of the legislator, required a public debate and vote on the director remuneration disclosure provision at the annual shareholder meetings and therefore involved a larger number of firm stakeholders in the firm internal reform process. Thus, post reform was coded 1 for the year 2006, and 0, otherwise.

Statistical Techniques

This study used two different statistical techniques to test the proposed hypotheses. Ordinal logistic regression analysis was used to model strategic firm responsiveness to pressures to reform director remuneration reporting. Competing-risk discrete-time event history analysis was used to model early and late adoption of director remuneration reporting versus nonadoption.

Ordinal Logistic Regression Analysis

First, an ordered logistic regression procedure was used to test hypotheses predicting a firm's level of responsiveness to the issuance of the code provision director remuneration reporting. The goal was to develop a statistical technique that allowed an interpretation of positive coefficients as increasing the likelihood that a firm was responsive to the issuance of the director remuneration reporting provision. As described above, the dependent variable strategic firm responsiveness was discrete and ordered (i.e., 0, 1, 2, 3). An ordered logit method was used because an ordinary least squares (OLS) model would require an interval level of measurement for the dependent variable and an OLS model would fail to account for the discrete nature of the dependent variable. A multinomial logit analysis would ignore the ordered nature of the dependent variable. The categorization of a firm in response category 3 (i.e., acquiescence) was treated as an absorptive event and removed the firm from the risk set. To avoid a bias towards this response strategy, firms only contributed observations to the dataset until they were classified in response category 3. This procedure is common in survival and event history analysis (Allison, 1984) and also suitable for the context of this study. I estimated a panel model for the dependent variable strategic firm responsiveness that organized the data of all six individual years in the observation period in "long form". "Long form" means there is one record for each individual

firm at each time point, with an identification number that is the same for all data records for the same individual firm, and a variable that indicates from which time point the firm record comes. The "long form" of the dataset had the potential to cause problems associated with statistical dependence among multiple observations that were taken from the same firm. Repeated observations on the same firm are likely positively correlated. Consequently, estimated standard errors will be too low, leading to test statistics that are too high, and p-values that are too low. To account for these potential problems and to correct for statistical dependence I estimated robust standard errors (i.e., Huber-White standard errors, also known as sandwich estimates, or empirical standard errors). The method was implemented with the STATA 10.1. command: ologit depvar [varlist], vce(cluster id).

Competing-Risk Discrete-Time Event History Analysis

Second, I used a competing-risk discrete-time event history analysis to test for the asymmetric effects of covariates on a firm's propensity for adopting the strategic response acquiescence early (during the years 2002, 2003, 2004, or 2005) or late (during the year 2006). Early adopters were coded as 1. Late adopters were coded as 2. The comparison group were non-adopting firms, which were coded as 0. Event history models are appropriate for analyzing longitudinal data when the dependent variable is a discrete event and the timing of the event's occurrence is of interest. Several studies in strategic management research have used this method (Cannella & Shen, 2001; Fiss & Zajac, 2004). I followed Cannella and Shen's (2001) method and estimated the following logistic regression that represents the logarithmic odds of adoption occurring for a particular firm at any time t: $\log\{Pi(t)/[P0(t)]\}$ ai $b1i$ $X1$ $b2i$ $X2(t - 1)$, where Pi is the likelihood that a firm is categorized as an early adopter (i = 1) or as a late adopter (i = 2); P0

is the likelihood of categorization as 0 (i.e., a non-adopter); *ai* is the intercept term for early adopters (i = 1) and late adopters (i = 2) ; *X*1 is a vector of time invariant covariates; *b*1*i* is a vector of estimated coefficients for *X*1; *X*2 is a vector of time varying covariates; and *b*2*i* is a vector of estimated coefficients for *X*. The likelihood of event occurrence at time period *t* depends on the time period *t* itself, the time-invariant vector *X1*, and the values of *X2* at time period (t-1). The categorization of firms in response category 3 was treated as an absorptive event and removed a firm from the risk set. Because I had data with repeated observations on individual firms, I estimated robust standard errors using the Huber/White sandwich estimator. The method was implemented with the STATA 10.1. command: mlogit depvar [varlist], vce(cluster id)

This concludes chapter 5 and the description of the analytical methodology. The subsequent chapter 6 proceeds with a description and analysis of the characteristics of the firms included in the dataset and with a formal test of the proposed hypotheses.

CHAPTER 6. RESULTS

This chapter examines the basic characteristics of the firms included in the sample dataset, assesses the degree of collinearity and multicollinearity among the explanatory variables, reports on the estimated models, and tests the formulated hypotheses.

Sample Characteristics

Table 5 shows that the sample is drawn from a variety of industry sectors as defined by the Securities and Exchange Commission. Manufacturing companies are the modal industry sector and account for 37 % of the firms in the sample. This industrial sector contributes about 30 % to Germany's GDP and about 29 % to the European Union's GDP (Germany Trade and Invest, 2012). The food and textile industry and services industries are represented each with 17 % of firms in the sample. Communication and transportation firms count for 15 % of the sample. The rest of the sample is drawn from wholesale trade, restaurant, mining, and construction industries. As stated above, financial institutions were not include in the sample.

Table 5: Firms in Sample by Industry

Industry Sector	**Firms in the Sample**
SIC3	69 (37 %)
SIC2	33 (17%)
SIC7	32 (17%)
SIC4	28 (15 %)
SIC5	14 (7%)
SIC8	10 (5%)
SIC1	3 (2%)
SIC6	omitted
Total	**189**

Table 7 provides descriptive statistics for the control and independent variables for the firms included in the sample. It is important to note that in the statistics in the column labeled "all firm years" summarize the variables across all observation years and that the means were calculated for all firm-year data. The data in the columns "observation year 2002" and "observation year 2006" provide statistics for the respective years and can be used to make inferences regarding changes in the explanatory variables between the beginning and the end point of the observation period.

The firms included in the sample are heterogeneous in their characteristics across the control and explanatory variables included in the study. The sample includes firms that incorporated and listed their stock at the very beginning of the observation period to firms that are more than 250 years old (M = 62.10 years; SD = 54.41 years). A high degree of heterogeneity can also be found when examining the size of firms (M = 13.01 (ln of sales); SD = 2.42) and the performance of firms (M = 1.57 ROA; SD = 11.75) included in the dataset. With regards to the variables that financial economics views as the main drivers of corporate governance reform, the paired t-test values reported in table 6 show a significant difference ($p < 0.05$) in firms' exposure to the capital market between the year 2002 (M = 37.66; SD = 24.04) and the year 2006 (M = 40.97; SD = 25.13). Further, firms' exposure to the international product market is significantly different ($p < 0.001$) between the year 2002 (M = 0.46; SD = 0.27) and the year 2006 (M = 0.49; SD = 0.28). During the six year observation period several firms delisted from international stock exchanges. This change in foreign listing was not significant. Additionally, as apparent by the change in firms' mean number of ties to other German companies listed on the Frankfurt Stock exchange, firms appeared to have loosened their domestic ties. This change, however, was not significant.

The examination of the ownership variables provides insights into dynamics with regards to the changes and redistribution of shareholdings and voting rights. Although the mean equity holdings of government owners (i.e., state and federal) in firms decreased during the observation period, this change was not significant. The paired t-test values show that the differences between the mean equity holdings of inside owners and stable owners at the beginning of the observation period compared to their equity holdings after five years were significant. The mean equity holdings in other firms by inside owners decreased during the observation period by 16 % to 26.35 %, and the mean equity holdings in other firms by stable owners decreased by 22 % to 13.83 %. Further, the paired t-test values also show that the differences between the mean equity holdings of market owners and foreign owners at the beginning of the observation period compared to their equity holdings after five years were significant. The mean equity holdings in other firms by market owners increased by 33 % to 13.08 %, and the mean equity holdings by foreign owners increased by 122 % to 8.67 %. The globalization of financial markets and the reforms in financial market law legislation discussed previously may explain those changes.

Table 6 shows that market and foreign owners occupy more dominant roles in the corporate governance of firms in 2006 than they did in 2002, whereas inside owners and stable owners gave up to hold dominant positions in firms. The mean equity holding of stable owners as a dominant owner has changed significantly between 2002 and 2006. Dominant stable owners have increased their stakes by 17 % to 42.89 %. The mean equity holdings of dominant government, market, and foreign owners have not changed significantly during this period. In examining these dynamics, it is important to note that under the German Securities Trading Act, 5 % ownership provides minimal minority protection, 25 % ownership gives veto powers on a variety of corporate governance issues, 50 % gives majority control, and 75 % or more gives

supermajority powers with extensive rights of control agreements and supervisory board elections. These thresholds likely influence the decision of large owners whether to acquire or sell equity shares in companies. In sum, the ownership variables show that market and foreign owners have gained influence in the corporate governance of firms, whereas inside and stable owners appear to have lost influence.

Table 6: Dominant Firm Owner Types

Number of firms with a…	**2002**	**2006**
Dominant government owner	7	9
Dominant inside owner	94	84
Dominant stable owner	65	52
Dominant market owner	9	12
Dominant foreign owner	14	32
Firms in the sample	189	189

Codetermination as a key institution in the German corporate governance systems remained uncontested during the observation period. The influence of the stakeholder group labor on supervisory boards remained stable (M = 0.30; SD = 0.22). On the average, labor representatives occupied 30 % of the supervisory board seats of the firms included in the sample.

Foreign nationals on the boards of the firms in the sample gained prominence during the five year observation period. The difference between the years 2002 and 2006 was significant. On the average, 5 % of the board members of the firms in my sample are foreign nationals. This change may reflect the increasing importance of foreign owners as capital providers and that firms respond to conformity pressures from foreign owners with an adjustment of their hiring decisions.

Table 7 further shows that firms have moved towards international accounting standards that demand more disclosure than the German accounting conventions. The difference between

U.S. GAAP/IAS usage in 2002 and 2006 was significant. On the average, 64 % of the firms in the sample use one of the two accounting standards.

Although, stock-based pay was not a regulatory legitimate practice prior to 1998, stock-base pay had been adopted by 53 % of the sampled firms in the year 2006. This number is significantly different compared to the adoption numbers in the year 2002 (M = 0.47; SD = 0.50). This practice seem to have gained normative and cognitive-cultural legitimacy since 1998.

Firms increasingly acquiesced to the provisions recommended by code. In the year 2002, firms had adopted 91 % of all provisions included in the corporate governance code in the year 2002 (SD = 0.07). This rate increased to 94 % in the year 2006 (SD = 0.04). The difference was significant.

The Government Commission for a German Corporate Governance Code had ties via board directors to 15 firms in the sample. The Government Commission's composition did not change during the observation period.

Finally, the board interlock and structural equivalence variables show that focal firms were exposed to acquiescence strategies formulated at other firms via the supervisory board chair (M = 0.10; SD = 0.30), via the CEO (M = 0.04; SD = 0.19), and industry peers (M = 9.38; SD = 11.28). Focal firms were exposed to defiance strategies formulated at other firms via the supervisory board chair (M = 0.09; SD = 0.27), via the CEO (M = 0.04; SD = 0.20), and structurally equivalent peers (M = 21.21; SD = 17.82).

Table 7: Descriptive Statistics for Summarized Panel Data and for Observation Years 2002 and 2006 [a, b]

	All Firm-Years				**Observation Year 2002**				**Observation Year 2006**				**paired t-test**
	Min	Max	Mean	Std.Dev.	Min	Max	Mean	Std.Dev.	Min	Max	Mean	Std.Dev.	t-value
CONTROL VARIABLES													
Industries	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Firm age	0.00	253	62.10	54.41	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Firm size (ln of sales)	0.00	19.00	13.01	2.42	0.00	18.80	12.96	2.30	0.00	18.85	13.14	2.41	3.36***
Performance (ROA)	-87.15	52.56	1.57	11.75	-67.38	23.35	-2.29	14.46	-77.71	35.33	4.26	10.51	5.477***
Free float	0.00	100.00	39.25	0.28	0.00	100.00	37.66	24.04	0.00	100.00	40.97	25.13	3.04*
Foreign sales	0.00	0.99	0.48	0.28	0.00	0.99	0.46	0.27	0.00	0.99	0.49	0.28	4.71***
Foreign listing	0	1	0.12	0.33	0	1	0.12	0.33	0	1	0.12	0.33	-1.00
Network centrality	0	28	2.59	4.94	0	21	2.67	4.89	0	28	2.53	4.22	-1.11
INDEPENDENT VARIABLES													
Govt ownership (sum) [c]	0.00	81.00	1.51	10.01	0.00	81.00	1.78	9.37	0.00	81.00	1.33	7.82	-1.32
Inside ownership (sum) [c]	0.00	100.00	28.37	28.69	0.00	100.00	31.40	30.14	0.00	100.00	26.35	27.92	-3.85***
Stable ownership (sum) [c]	0.00	100.00	15.38	26.44	0.00	88.96	17.69	26.06	0.00	96.70	13.83	23.81	-2.69**
Market ownership (sum) [c]	0.00	82.00	11.78	12.84	0.00	82.00	9.83	18.84	0.00	82.00	13.08	20.63	2.35*
Foreign ownership (sum) [c]	0.00	96.70	6.38	14.85	0.00	96.70	3.90	11.06	0.00	96.70	8.67	17.36	4.37***
Dominant govt. owner	4.96	81.00	36.55	28.42	14.8	81.00	38.16	27.14	4.96	81.00	35.25	23.02	-1.46+
Dominant inside owner	2.40	100.00	32.73	22.50	2.40	100.00	36.59	22.66	6.48	100.00	29.15	22.12	-3.70***
Dominant stable owner	0.40	100.00	39.92	28.42	2.70	100.00	36.70	27.36	0.40	96.70	42.89	29.12	4.18***
Dominant market owner	5.06	82.00	30.04	24.98	5.06	88.96	27.95	24.77	6.60	82.00	38.35	24.95	0.81
Dominant foreign owner	5.06	96.70	29.40	27.30	5.06	96.70	27.91	27.32	6.60	96.70	37.97	27.09	1.88+
Labor power	0.00	0.60	0.30	0.22	0.00	0.60	0.30	0.22	0.00	0.60	0.30	0.22	0.63
Foreign top management	0.00	0.80	0.05	0.09	0.00	0.04	0.04	0.08	0.00	0.80	0.05	0.11	2.08*
US GAAP/IAS	0	1	0.64	0.47	0	1	0.63	0.49	0	1	0.67	0.47	2.59*
Stock option schemes	0	1	0.48	0.50	0	1	0.47	0.50	0	1	0.53	0.50	3.40***
Code logic acceptance	0.70	1.00	0.92	0.05	0.64	1.00	0.91	0.07	0.73	1	0.94	0.05	8.09***
Tie to code commission	0	1	0.08	0.27	0	1	0.08	0.27	0	1	0.08	0.27	n/a
BoD chair ties to adopters	0	6	0.10	0.30	0	0	0	0	0	6	0.20	0.42	6.79***
CEO ties to adopters	0	3	0.04	0.19	0	0	0	0	0	3	0.08	0.27	4.38***
BoD chair ties to defiers	0	4	0.09	0.27	0	0	0	0	0	1	0.01	0.07	7.57***
CEO ties to defiers	0	4	0.04	0.20	0	0	0	0	0	1	0.00	0.05	2.02*
Industry acquiescence	0	45	9.38	11.28	0	0	0	0	3	45	26.15	15.89	23.17***
Industry defiance	0	72	21.21	17.82	0	0	0	0	0	34	21.28	11.11	25.40***

a. n = 945 firm year observations
b. The paired sample t-test compares the means in the year 2002 and the year 2006
c. not included in estimated models
*** $p < 0.001$, ** $p < 0.01$, * $p < 0.05$, + $p < 0.10$

Tables 8 and 9 below are concerned with the dependent variable strategic firm responsiveness. Table 8 shows that in every year during the observation period, the firms in the sample pursued one of the four response strategies outlined above. Compared to the first and last years in the observation period, firms make more heterogeneous choices with regards to their strategic response during the years 2003, 2004, and 2005. Although the regulatory pressure to adopt the provision increased in 2006, that table shows that only 56 % of the firms in my sample have adopted the provision fully while the rest pursued other response strategies. This is a surprising finding because other studies assumed that after the code reform most firms will comply and adopt the provision (Chizema, 2008).

Table 8: Firm Response Strategies by Year

Response Strategy[a]		**0**	**1**	**2**	**3**	**Firms in Sample**
Years	**2002**	159 (84%)	18 (9%)	4 (2%)	8 (4%)	189
	2003	77 (41%)	72 (39%)	20 (10%)	20 (10%)	189
	2004	62 (33%)	64 (34%)	28 (15%)	35 (18%)	189
	2005	43 (23%)	61 (32%)	32 (17%)	53 (28%)	189
	2006	7 (4%)	39 (21%)	37 (20%)	106 (56%)	189

[a] 0 = defiance; 1 = avoidance; 2 = compromise; 3 = acquiescence

While table 8 presents a static picture of firms' choices of response strategies, table 9 attempts to show the dynamics underling the transitions between the different strategies. For instance, defiance as a response strategy appears to be a "sticky" choice in early periods. Of those firms that had pursued a defiance strategy in the year 2002, 94 % continued to pursue this strategy also in year 2003. A similar picture presents itself for the transition period 2003/2004, where at least 80 % of those firms that had pursued a particular response strategy (i.e., defiance, avoidance, or compromise) in the year 2003 also chose to pursue the same strategy in the following year. Avoidance remained a "sticky" strategic choice for firms also during the

transition period 2004/2005. Further, the previous adoption of a compromise strategy appears to smoothen the way for firms' full acquiescence to the code provision.

Table 9: Movements of Firms Between Response Strategies Over Time

	Transitions Between Response Strategies[a]									
Years	**0=0**	**0->1**	**0->2**	**0->3**	**1=1**	**1->2**	**1->3**	**2=2**	**2->3**	**3=3**
2002->2003	46%	37%	12%	5%	94%	0%	6%	40%	60%	100%
2003->2004	80%	8%	6%	6%	80%	10%	10%	83%	17%	100%
2004->2005	69%	13%	9%	9%	81%	9%	10%	74%	26%	100%
2005->2006	17%	29%	23%	31%	44%	21%	35%	47%	53%	100%

[a] 0 = defiance; 1 = avoidance; 2 = compromise; 3 = acquiescence

Table 10 shows the descriptive statistics of variables associated with early and late acquiescence to the code provision director remuneration reporting. ANOVA analysis indicates that early adopters differed significantly from late adopters on some variables. Early adopters had significantly more free float (M = 51.33; SD = 24.43) than late adopters (M = 41.12; SD = 24.16), early adopters were more central in the network of interlocking directorates (M = 5.81; SD = 6.97) compared to late adopters (M = 3.10; SD = 4.70), early adopters had less dominant owners. Compare, for instance, the mean of the dominant government owner between early adopters (M = 24.93; SD = 24.13) and late adopters (M = 40.24; SD = 23.56). Early adopters also differed significantly from late adopters in the adoption of U.S. GAAP/IAS accounting standards (M = 0.82; SD = 0.38 versus M = 0.63; SD = 0.48) and stock option schemes (M = 0.73; SD = 0.44 versus M = 0.44; SD = 0.50). These differences are generally in the theoretically predicted directions. It is important to note that the proposed methodology will model early and late adoption simultaneously in comparison to the group of non-adopters.

Table 10: Descriptive Statistics for Variables Associated with Early, Late, and Non-Adoption

Dependent variable	Early adopters Adoption before 2006		Late adopters Adoption in 2006		Non-adopters Base outcome		One-Way ANOVA for Differences Between Groups		
Number of firms	51		45		93		Early/late adopters	Early/non adopters	Late/non adopters
Explanatory variables	Mean	Std.Dev.	Mean	Std.Dev.	Mean	Std.Dev.	mean difference	mean difference	mean difference
Firm age	57.32	50.52	62.24	52.63	66.75	57.63	-4.92	-9.43	-4.51
Firm size (ln of sales)	13.84	2.77	13.29	2.11	12.43	2.13	0.55	1.41***	0.86***
Performance (ROA)	0.14	12.75	3.08	7.89	1.65	12.51	-2.94	-1.51	1.43
Free float	51.33	24.43	41.12	24.16	29.89	21.92	10.21*	21.44***	11.23**
Foreign sales	0.50	0.25	0.48	0.29	0.46	0.29	0.02	0.04	0.02
Foreign listing	0.23	0.42	0.14	0.35	0.04	0.21	0.09	0.19***	0.1*
Network centrality	5.81	6.97	3.10	4.70	1.11	1.59	2.71**	4.7***	1.99***
Dominant govt. owner	24.93	24.13	40.24	23.56	51.30	25.60	-15.31**	-26.37***	-11.06**
Dominant inside owner	22.11	22.49	30.06	22.40	44.63	22.33	-7.95+	-22.52***	-14.57***
Dominant stable owner	29.52	28.42	40.51	28.16	50.51	28.08	-10.99+	-20.99*	-10+
Dominant market owner	21.93	24.99	30.04	24.99	41.00	25.31	-8.11	-19.07***	-10.96*
Dominant foreign owner	18.45	27.30	29.88	27.44	49.59	27.60	-11.43*	-31.14***	-19.71***
Labor power	0.30	0.21	0.29	0.22	0.22	0.22	0.01	0.08*	0.07+
Foreign top management	0.73	1.30	0.46	1.44	0.67	1.56	0.27	0.06	-0.21
US GAAP/IAS	0.82	0.38	0.63	0.48	0.54	0.50	0.19*	0.28***	0.09
Stock option schemes	0.73	0.44	0.44	0.50	0.35	0.48	0.29**	0.38***	0.09
Code logic acceptance	0.05	0.04	0.06	0.04	0.11	0.07	-0.02	-0.06***	-0.05***
Tie to code commission	0.18	0.39	0.07	0.25	0.02	0.14	0.11	0.16***	0.05
BoD chair ties to adopters	0.23	0.43	0.10	0.30	0.03	0.17	0.13+	0.2***	0.07+
CEO ties to adopters	0.10	0.30	0.04	0.18	0.01	0.08	0.06	0.09**	0.03
BoD chair ties to defiers	0.14	0.35	0.10	0.27	0.07	0.22	0.04	0.07	0.03
CEO ties to defiers	0.07	0.28	0.05	0.20	0.03	0.13	0.02	0.04	0.02
Industry acquiescense	8.68	10.22	10.29	12.45	9.26	11.17	-1.61	-0.58	1.03
Industry defiance	17.97	16.91	24.02	19.11	21.52	17.34	-6.05	-3.55	2.50

*** $p < 0.001$, ** $p < 0.01$, * $p < 0.05$, + $p < 0.10$

Correlations and Multicollinearity Assessment

Table 12 reports small to medium correlations between the explanatory variables. The strongest correlations can be found between previous defiance and previous avoidance ($r = 0.71$; $p < 0.05$), labor power and firm size ($r = 0.69$; $p < 0.05$), network centrality and firm size ($r = 0.66$; $p < 0.05$), tie to code commission and network centrality ($r = 0.65$, $p < 0.05$), and labor power and firm age ($r = 0.57$; $p < 0.05$). Although the correlations do not indicate the existence of substantial collinearity problems, the lack of high correlations does not ensure that there would be no problem with regards to multicollinearity. Multicollinearity, the degree to which each independent variable is explained by the set of other independent variables, can result in inflated variances of the parameter estimates, wrong signs and magnitudes of coefficient estimates, lack of statistical significance of individual covariates but at the same time strong overall model significance (Hair, Black, Babin, & Anderson, 2009). Generally, these issues can lead to incorrect conclusions about relationships between independent and dependent variables. To assess whether any remedies were needed to proceed with the analysis, I evaluated (1) the variance inflation factor (VIF) and the tolerance values for each covariate and (2) the condition indices. The largest VIF value among all independent variables is often used as an indicator of the severity of multicollinearity. A maximum VIF value above 10 is frequently taken as an indication that multicollinearity may be influencing the parameter estimates (Hair et al., 2009; Kutner, Nachtsheim, & Neter, 2004). Table 11 shows that the highest VIF value is 8.20 for industry defiance. The tolerance value for this variable suggests that 12 % of the variability of this variable is not explained by the other explanatory variables. Besides the two industry level variables industry defiance and industry acquiescence, the variables with relatively high VIFs are

control variables. Therefore, the VIF values do not indicate problematic levels of multicollinearity.

Table 11: Collinearity Diagnostics: Variance Inflation Factors

Variable	VIF	1/VIF (Tolerance)	Variable	VIF	1/VIF (Tolerance)
Industry defiance	8.20	0.12	Foreign listing	1.96	0.51
Year 2002	6.80	0.15	US GAAP/IAS	1.89	0.53
Year 2003	5.61	0.18	SIC 1	1.87	0.53
Year 2004	5.03	0.20	Dominant stable owner	1.80	0.56
Industry acquiescence	4.46	0.22	Code logic acceptance	1.80	0.56
SIC 7	4.03	0.25	Dominant inside owner	1.77	0.57
Year 2005	3.96	0.25	Free float	1.70	0.59
SIC 4	3.83	0.26	Foreign top management	1.54	0.65
SIC 2	3.66	0.27	Foreign sales	1.53	0.65
Firm size	3.62	0.28	CEO ties to defiers	1.47	0.68
Previous defiance	3.57	0.28	BoD chair ties to adopters	1.44	0.70
Network centrality	3.56	0.28	BoD chair ties to defiers	1.38	0.73
SIC 5	3.54	0.28	CEO ties to adopters	1.33	0.75
SIC 8	3.21	0.31	Dominant government owner	1.33	0.75
Previous avoidance	2.92	0.34	Dominant foreign owner	1.32	0.76
Labor power	2.87	0.35	Dominant market owner	1.27	0.79
Firm age	2.11	0.47	Firm performance	1.21	0.83
Tie to code commission	1.98	0.50	**Mean VIF**	**2.82**	
Stock option schemes	1.98	0.51			

To further assess whether there was a problem with multicollinearity, I used the command coldiag2 in STATA 10.1. to examine the conditioning of the matrix of independent variables. Table 13 shows the condition number of the matrix. In general, if this condition number, which corresponds to the largest condition index, is 30 or higher then there might be a multicollinearity problem (Belsley, 1991). All condition indexes were be below this value.

Table 12: Collinearity Diagnostics: Correlation Matrix [a, b]

Variable	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29
1 Responsiveness																													
2 Early adopters	0.21																												
3 Late adopters	0.09	-0.39																											
4 Firm age	-0.02	-0.06	-0.01																										
5 Firm size (ln of sales)	0.16	0.20	0.06	0.37																									
6 Performance (ROA)	0.13	-0.08	0.08	0.10	0.19																								
7 Free float	0.08	0.26	0.06	-0.25	-0.03	-0.01																							
8 Foreign sales	0.04	0.05	0.02	0.13	0.29	0.14	0.05																						
9 Foreign listing	0.09	0.21	0.03	0.09	0.51	0.02	0.19	0.20																					
10 Network centrality	0.12	0.36	0.01	0.24	0.66	0.04	0.13	0.22	0.53																				
11 Dominant govt. owner	0.09	0.10	0.02	-0.03	0.22	0.01	0.03	-0.01	0.07	0.18																			
12 Dominant inside owner	-0.12	-0.24	-0.07	0.01	-0.14	0.09	-0.14	0.00	-0.15	-0.22	-0.14																		
13 Dominant stable owner	-0.05	-0.05	0.04	0.11	-0.03	-0.01	-0.32	0.01	-0.16	-0.04	-0.11	-0.37																	
14 Dominant market owner	0.03	-0.05	0.02	0.04	-0.03	-0.08	0.01	-0.08	0.01	-0.09	-0.06	-0.19	-0.15																
15 Dominant foreign owner	0.05	0.06	-0.03	-0.01	0.07	0.01	0.08	0.11	0.20	0.00	-0.08	-0.18	0.03	0.16															
16 Labor power	0.08	0.12	0.06	0.57	0.69	0.15	-0.15	0.19	0.34	0.45	0.19	-0.17	0.05	-0.02	0.09														
17 Foreign top management	0.10	0.04	-0.07	0.03	0.29	0.00	-0.08	0.15	0.28	0.08	-0.06	-0.12	0.10	-0.01	0.24	0.14													
18 US GAAP/IAS	0.12	0.23	-0.02	-0.18	0.06	-0.07	0.31	0.17	0.15	0.13	-0.02	-0.05	-0.16	-0.09	0.07	-0.13	0.16												
19 Stock option schemes	0.12	0.31	-0.05	-0.28	-0.04	-0.14	0.23	0.10	0.13	0.09	0.07	-0.05	-0.19	-0.06	0.00	-0.22	0.11	0.45											
20 Code logic acceptance	0.27	0.32	0.14	0.05	0.46	0.03	0.20	0.20	0.27	0.39	0.12	-0.14	-0.11	-0.09	0.01	0.27	0.10	0.39	0.25										
21 Tie to code commission	0.11	0.24	-0.03	0.14	0.43	0.02	0.05	0.13	0.42	0.65	0.04	-0.13	-0.09	-0.04	0.04	0.26	0.00	0.10	0.09	-0.25									
22 BoD chair ties to adopters	0.20	0.25	-0.01	0.14	0.29	0.01	0.10	0.13	0.34	0.47	0.04	-0.10	-0.06	-0.01	0.06	0.19	0.01	0.09	0.14	-0.20	0.34								
23 CEO ties to adopters	0.12	0.17	0.00	0.06	0.35	0.03	0.13	0.14	0.31	0.42	0.12	-0.12	-0.04	-0.02	0.02	0.21	0.15	0.10	0.07	-0.21	0.38	0.28							
24 BoD chair ties to defiers	-0.16	0.09	0.01	0.19	0.17	-0.02	0.02	0.13	0.17	0.34	-0.04	-0.05	-0.01	-0.01	0.02	0.15	-0.06	0.03	0.06	-0.07	0.22	0.06	0.00						
25 CEO ties to defiers	-0.07	0.09	0.01	0.07	0.26	0.02	0.06	0.10	0.30	0.39	0.00	-0.05	-0.05	-0.04	-0.02	0.18	0.06	0.05	0.03	-0.10	0.38	0.09	0.08	0.23					
26 Industry acquiescence	0.41	-0.04	0.05	0.02	0.01	0.14	0.04	0.13	0.05	-0.04	0.01	0.01	-0.04	0.02	0.14	0.01	0.05	0.04	0.02	-0.02	0.00	0.12	0.11	-0.14	-0.10				
27 Industry defiance	-0.24	-0.11	0.10	0.09	-0.01	0.01	0.03	0.24	0.10	-0.07	-0.04	0.14	-0.11	0.01	0.02	0.03	0.03	0.01	-0.02	0.08	-0.03	-0.09	-0.04	0.16	0.12	0.06			
28 Previous defiance	-0.51	-0.07	-0.02	-0.07	-0.15	-0.12	0.01	-0.03	-0.01	-0.05	-0.07	0.02	0.03	0.02	-0.02	-0.11	-0.12	-0.06	-0.02	0.13	-0.03	-0.11	-0.05	0.15	0.10	-0.29	0.22		
29 Previous avoidance	0.26	0.05	0.08	0.13	0.12	0.11	-0.08	0.01	-0.04	-0.01	0.04	0.06	0.00	-0.05	-0.04	0.13	0.04	0.00	-0.07	-0.03	-0.03	0.03	0.02	-0.10	-0.07	0.15	-0.14	-0.71	
30 Previous compromise	0.44	0.03	0.04	-0.05	0.00	0.05	0.00	0.02	0.01	-0.01	0.02	-0.06	-0.03	0.07	0.04	-0.05	0.12	0.03	0.05	-0.05	0.02	0.01	-0.04	-0.08	-0.05	0.18	-0.09	-0.40	-0.16

a. Correlations greater than 0.06 are significant at $p<0.05$ (two-tailed test)
b. $n = 945$ firm year observations

Table 13: Collinearity Diagnostics: Condition Index

Dimension	Condition Index	Dimension	Condition Index
1	1.00	**20**	3.12
2	1.47	**21**	3.20
3	1.76	**22**	3.21
4	1.80	**23**	3.30
5	1.93	**24**	3.42
6	2.07	**25**	3.51
7	2.30	**26**	4.06
8	2.31	**27**	4.12
9	2.36	**28**	4.34
10	2.45	**29**	4.84
11	2.51	**30**	5.13
12	2.55	**31**	5.34
13	2.59	**32**	6.52
14	2.65	**33**	6.78
15	2.72	**34**	7.55
16	2.76	**35**	8.03
17	2.84	**36**	13.88
18	2.94	**37**	15.83
19	3.00		

In sum, the examination of the correlations between explanatory variables, the VIFs, and the condition index suggest that problems associated with multicollinearity will not unduly affect the estimation of the proposed multivariate models. Therefore, no remedial measures were necessary to proceed with the analysis.

Estimation of Models and Hypotheses Testing

This section reports on the estimation of the two previously formulated statistical models to test the proposed hypotheses with regards to the dependent variable strategic firm responsiveness to the issuance of the code provision director remuneration reporting (model 1) and with regards to the asymmetric effects of covariates on a firm's propensity for adopting the

strategic response acquiescence early or late (model 2). For both dependent variables, I estimate a baseline model (model a) that includes only the control variables and a full model (model b). All independent variables were entered simultaneously in the full model since I had no theoretical rationale for entering them in a particular sequence. For all models, summary statistics including scalar measures of model fit are reported. Finally, the proposed hypotheses are tested and the results reported.

Estimation of Model for Firm Responsiveness

Table 14 below presents the results of the ordinal logistic regression analysis developed in chapter 5. Ordered logistic regression assumes that the coefficients are not significantly different across the ordered categories of the dependent variable. The Brant test for the full model in table 14 (Chi-Square = 27.88; df = 36; $p > 0.100$) does not provide evidence that this assumption is violated. Further, for the full model, table 14 reports a significant Wald Chi2 test (Chi-Square = 491.79; df = 36; $p < 0.001$) that rejects the null hypotheses that all of the regression coefficients in the model are equal to zero. The test, therefore, indicates that at least one of the explanatory variables' regression coefficient is not equal to zero in the model. In other words, the test suggests that as a whole the full model is statistically significant, as compared to the null model with no predictors. Table 14 also provides a measure of how well the full model fits the data (McFadden's Pseudo R2 = 0.2694). There is an ongoing debate whether measures of model fit should be reported for logit models (Hoetker, 2007). For example, the McFadden's Pseudo R2 reported below does not correspond to the "percent of variance explained," as R2 does in OLS, but merely indicates a 26.94 % increase in the log-likelihood function. The number, therefore, has no obvious meaning. Best practice recommendations in the literature

suggest that if providing a measure of fit, it should be fully identified (e.g., McFadden's Pseudo R2 rather than Pseudo R2) and not interpreted beyond what it actually represents. The standard interpretation of the ordered logit coefficient is that for a one unit increase in the explanatory variable, the firm's level of responsiveness to the issuance of the director remuneration reporting code provision is expected to change by its respective regression coefficient in the ordered log-odds scale while the other variables in the model are held constant.

Estimation of Model for Timing of Acquiescence

Table 15 below presents the results of the competing-risk discrete-time event history analysis method developed in chapter 5. A basic component of this methodology is multinomial logistic regression which makes the assumption of independence of irrelevant alternatives, meaning that adding or deleting alternatives does not affect the odds among the remaining alternatives (Long & Freese, 2006). The Small-Hsiao (SH) test can be used to test this null hypothesis. For model 2b, the two variations of the SH test fail to reject the null hypotheses. This implies that the independence of irrelevant alternatives assumption cannot be rejected and that the specified multinomial logit model is appropriate. For model 2b, table 15 reports a significant Wald Chi2 test (Chi-Square = 406.17; df = 70; $p < 0.001$) that rejects the null hypotheses that the regression coefficients across both equations (early adoption relative to non-adoption and late adoption relative to non-adoption) are simultaneously equal to zero. The test, therefore, indicates that at least one of the explanatory variables' regression coefficient is not equal to zero and that as a whole, the model fits significantly better than a model with no predictors. Table 15 also provides a measure of how well the model fits the data (McFadden's Pseudo R2 = 0.3524). The standard interpretation of the multinomial logit is that for a unit change in the predictor variable,

the logit of outcome *m* relative to the referent group is expected to change by its respective parameter estimate given the variables in the model are held constant (Long & Freese, 2006).

Table 14: Results of Ordered Logistic Regression

PARAMETER ESTIMATES AND MODEL SUMMARIES	Model 1a[a]		Model 1b[a]	
	Firm Responsiveness Coefficients	**Robust Standard Errors**	**Firm Responsiveness Coefficients**	**Robust Standard Errors**
CONTROL VARIABLES				
Industry dummies	**Included**		**Included**	
Year dummies	**Included**		**Included**	
Firm age	**-0.00**	(0.001)	**-0.00**	(0.002)
Firm size	**0.15*** **	(0.054)	**0.03**	(0.066)
Firm performance	**0.00**	(0.006)	**0.01**	(0.007)
Free float	**0.18***	(0.068)	**0.09**	(0.088)
Foreign sales	**-0.09**	(0.304)	**-0.25**	(0.315)
Foreign listing	**0.11**	(0.208)	**0.11**	(0.254)
Network centrality	**-0.02**	(0.023)	**-0.01**	(0.032)
Previously adopted avoidance strategy	**1.46*** **	(0.178)	**1.32*** **	(0.178)
Previously adopted compromise strategy	**3.10*** **	(0.258)	**2.84*** **	(0.277)
Post reform	**3.09*** **	(0.328)	**1.96*** **	(0.538)
INDEPENDENT VARIABLES				
Dominant government owner			**0.07**	(0.119)
Dominant inside owner			**-0.01**	(0.004)
Dominant stable owner			**0.00**	(0.004)
Dominant market owner			**0.01***	(0.005)
Dominant foreign owner			**-0.27**	(0.264)
Labor power			**0.69**	(0.568)
Foreign top management			**0.01***	(0.054)
US GAAP/IAS			**-0.21**	(0.250)
Stock option schemes			**0.58** **	(0.195)
Code logic acceptance			**0.13*** **	(0.031)
Tie to code commission			**0.46**	(0.323)
BoD chair ties to adopters			**0.67***	(0.309)
CEO ties to adopters			**-0.13**	(0.534)
BoD chair ties to defiers			**-0.66***	(0.353)
CEO ties to defiers			**-0.59**	(0.606)
Industry acquiescence			**0.03+**	(0.015)
Industry defiance			**-0.03***	(0.015)
MODEL SUMMARIES				
Constant (cutpoint 1)	4.259	(0.764)	0.020	(1.221)
Constant (cutpoint 2)	6.418	(0.806)	2.296	(1.239)
Constant (cutpoint 3)	7.762	(0.815)	3.749	(1.246)
Firm year observations		812		812
Clusters		189		189
Log pseudolikelihood		-786.58		-751.46
McFadden's Pseudo R2		0.2353		0.2694
Wald Chi2		389.45***		491.79***
Degrees of Freedom		18		36
Wald Chi2 Change				51.35***

a. Control model
b. Full model
*** p < 0.001, ** p < 0.01, * p < 0.05, + p < 0.10

Table 15: Competing-Risk Discrete-Time Event History Analysis

PARAMETER ESTIMATES AND MODEL SUMMARIES	Model 2a[a]				Model 2b[b]			
	Early Acquiescence Coefficients	Robust Standard Errors	Late Acquiescence Coefficients	Robust Standard Errors	Early Acquiescence Coefficients	Robust Standard Errors	Late Acquiescence Coefficients	Robust Standard Errors
CONTROL VARIABLES								
Industry dummies	**Included**		**included**		**Included**		**included**	
Year dummies	**Included**		**included**		**Included**		**included**	
Firm age	**-0.01****	(0.003)	**-0.00**	(0.002)	**-0.02****	(0.005)	**-0.00**	(0.003)
Firm size	**0.21****	(0.076)	**0.01**	(0.069)	**-0.11**	(0.123)	**-0.11**	(0.084)
Firm performance	**0.02**	(0.012)	**-0.01+**	(0.010)	**0.02**	(0.017)	**-0.01**	(0.010)
Free float	**1.14*****	(0.244)	**0.47*****	(0.164)	**1.20*****	(0.345)	**0.50****	(0.164)
Foreign sales	**0.37**	(0.447)	**0.66**	(0.452)	**-0.16**	(0.562)	**0.94***	(0.452)
Foreign listing	**0.79+**	(0.426)	**-0.86***	(0.442)	**0.68**	(0.446)	**-1.62*****	(0.442)
Network centrality	**0.03**	(0.195)	**1.15*****	(0.231)	**-0.01**	(0.277)	**0.85*****	(0.231)
Previously adopted avoidance strategy	**-4.10*****	(0.899)	**-0.86****	(0.268)	**0.35**	(0.648)	**-0.33**	(0.258)
Previously adopted compromise strategy	**-1.81****	(0.679)	**-0.37**	(0.334)	**2.63****	(0.887)	**0.47**	(0.345)
INDEPENDENT VARIABLES								
Dominant government owner					**0.25**	(0.203)	**0.23**	(0.167)
Dominant inside owner					**-0.09**	(0.128)	**0.13**	(0.088)
Dominant stable owner					**-0.24+**	(0.125)	**0.17***	(0.077)
Dominant market owner					**-0.03**	(0.129)	**-0.06**	(0.116)
Dominant foreign owner					**0.05**	(0.151)	**0.19***	(0.087)
Labor power					**3.69*****	(1.045)	**1.10**	(0.692)
Foreign top management					**0.08**	(0.106)	**0.16***	(0.078)
US GAAP/IAS					**0.80***	(0.315)	**0.34**	(0.220)
Stock option schemes					**1.19*****	(0.333)	**0.76****	(0.237)
Code logic acceptance					**0.16***	(0.064)	**0.11****	(0.037)
Tie to code commission					**0.52**	(0.490)	**1.32****	(0.450)
BoD chair ties to adopters					**0.19**	(0.613)	**1.21****	(0.417)
CEO ties to adopters					**0.34**	(0.714)	**-0.85**	(0.590)
BoD chair ties to defiers					**-0.02**	(0.787)	**-0.05**	(0.359)
CEO ties to defiers					**-0.24**	(0.660)	**-1.45****	(0.464)
Industry acquiescence					**0.00**	(0.026)	**-0.00**	(0.016)
Industry defiance					**-0.01**	(0.019)	**-0.01**	(0.010)
MODEL SUMMARIES								
Constant	-6.993	(1.410)	-3.347	(0.944)	-3.059	(2.249)	-5.754	(1.435)
Firm year observations				812				812
Clusters				189				189
Log pseudolikelihood				-570.69				-479.41
McFadden's Pseudo R2				0.2547				0.3524
Wald Chi2				298.71***				406.14***
Degrees of Freedom				38				72

a. Control model; base outcome: non-adopters
b. Full model; base outcome: non-adopters
*** $p < 0.001$, ** $p < 0.01$, * $p < 0.05$, + $p < 0.10$

Hypotheses Testing

In model 1, the hypotheses tests of regression coefficients for hypotheses H1 through H15 can be evaluated with the z-statistics in the estimation output in table 14. In model 2, the same procedure can be applied to test the coefficients for hypotheses H16 through H20.

However, since the hypotheses in model 2 predicted asymmetric effects of covariates for early and late adopters, I also test for the difference in the magnitude of coefficients with the STATA 10.1. postestimation command mlogtest. This section proceeds with presenting the results of the formulated hypotheses. The theoretical implications of the results and potential explanations for mixed findings are discussed in chapter 7 that immediately follows the hypotheses tests.

Strategic Firm Responsiveness to Reform Pressures

Model 1a tests the control variables, with several covariates being significant predictors of strategic firm responsiveness to reform pressures.

As expected, large firms were more likely to respond to reform pressures ($b = 0.15$; $p = 0.005$). However, the effect of this variable was not robust in the fully specified model 1b. In line with the financial economics perspective on corporate governance reform, a firm's exposure to the capital market was significantly associated with responsiveness to reform pressures ($b = 0.18$; $p = 0.008$). Also this variable was not robust to the inclusion of the block of independent variables in model 1b.

A firm's previous level of responsiveness to the code provision was significantly related to responsiveness to reform pressures. The difference in the magnitude of the coefficients for a previously pursued compromise strategy ($b = 1.46$; $p < 0.001$) and a previously pursued avoidance strategy ($b = 3.10$; $p < 0.001$) was significant ($p < 0.001$). These variables were also robust to the inclusion of the independent variables in model 1b and were positive and significant for previously pursued avoidance strategy ($b = 1.31$; $p < 0.001$) and previously pursued avoidance compromise strategy ($b = 2.84$; $p < 0.001$). The difference in the magnitude of the coefficients was again significant ($p < 0.001$), indicating that a firm's symbolic acknowledgment

of reform pressures (i.e., avoidance) had a weaker positive effect on the firm's subsequent reform efforts than a firm's more substantive acknowledgement of these pressures (i.e., compromise).

Finally, the control variable post reform, indicating a regulatory change that required a public debate among firm stakeholders and a shareholder vote on the code provision at the annual shareholder meeting was significant and positively associated with a firm's level of responsiveness to the code provision ($b = 1.96$; $p < 0.001$).

The model summaries for model 1b show that the addition of the block of independent variables significantly improved overall model fit (Wald Chi-Square Change = 51.35; $p < 0.001$) versus the baseline model. I used model 1b to test hypotheses H1 through H16.

Hypotheses H1, H2, H3, H4, and H5 predicted that the identity of a firm's dominant owner will be reflected in a firm's level of responsiveness to national level pressures for governance reform. Generally, the results did not support these hypotheses, except for H4, that predicted that the size of a firm's equity stake held by a dominant market owner will be positively associated with the firm's level of responsiveness to a code provision that recommends to publish a director remuneration report ($b = 0.01$; $p = 0.033$).

I also argued that the stakeholder group labor, if given sufficient power within firms, would promote the director remuneration reporting provision and, hence, firms would be more likely to respond to this provision. The results did not provide support for this hypothesis.

Besides capital providers and labor, top management was hypothesized to be another powerful stakeholder group. H7 predicted that the number of foreign nationals on a firm's board would be positively related to the firm's level of responsiveness to the issuance of the code provision. This hypothesis was supported ($b = 0.01$; $p = 0.042$).

The compatibility argument that provides the basis for H8 suggested that the previous adoption of a practice in the communicative dimension of shareholder value orientation (i.e., U.S. GAAP/IAS) would be positively associated with a firm's level of responsiveness to the director remuneration provision, a practice in the same policy domain. The results indicate that previous experience with practices in the same policy domain as the director remuneration code provision does not significantly influence a firm's responsiveness to the issuance of that provision.

H9 was formulated as a competing hypothesis proposing in H9a that a firm's adoption of compensation practices that have limited normative and cognitive-cultural legitimacy within an institutional field may be negatively associated with a firm's level of responsiveness to a practice that discloses the use of the institutionally contested practice. Alternatively, H9b proposed that through second-order learning processes firms develop an understanding of the complementarity of the compensation and the communicative dimensions of the shareholder value concept. The coefficient for prior adoption of stock option schemes was positive and significant ($b = 0.58$; $p = 0.003$) providing support for H9b.

H10 predicted that the more code provisions a firm adopts and thereby "buys into" the code's underlying institutional logic, the higher the firm’s level of responsiveness to the issuance of a practice from the same logic. The significant positive coefficient for the variable code logic acceptance ($b= 0.13$; $p < 0.001$) provides support for this hypothesis.

H11 stated the existence of affiliations or relationships between a firm and a high-status change agent will be positively associated with the firm’s level of responsiveness to a practice that this change agent introduces into an institutional field. The variable "tie to code commission" is not significant, indicating that the "cooptation" of a firm by the change agent (i.e.,

the code commission) does not influence a firm's level of responsiveness to the director remuneration reporting provision that was issued by the change agent.

Hypotheses H12 and H13 proposed competing influences on firm responsiveness to the director remuneration reporting provision emanating from pressures in the interlocking directorate. The results show opposing and nearly equal effects on a focal firm's level of responsiveness to the code provision stemming from board tie of the supervisory board chairman to firms that pursue an acquiescence strategy ($b = 0.67$; $p = 0.031$) and to firms that pursue a defiance strategy ($b = -0.66$; $p = 0.035$) in response to the director remuneration reporting provision. The effects for board interlocks via a focal firm's CEO were not significant.

In addition to processes of cohesion, I also argued that competing influences on firm responsiveness to the director remuneration reporting provision emanate from structurally equivalent peers. H14, that predicted that the number of adopters of the code provision in a focal firm's industry would be positively associated with the focal firm's level of responsiveness, was not significant at the conventional 0.05 level of statistical significance ($b = 0.03$; $p = 0.051$). H15 predicted that the number of firms in a focal firm's industry that had pursued a defiance strategy in response to the code provision would be negatively associated with the focal firm's level of responsiveness. This hypothesis was statistically significant ($b = -0.03$; $p = 0.037$).

The next section reports the test results of the hypotheses that predict asymmetric effects for early and late acquiescence to the director remuneration reporting provision.

Timing of Acquiescence to Reform Pressures

The results of the competing-risk discrete-time event history model are reported in table 15. Each coefficient, whether for early acquiescence or late acquiescence, is interpreted as

relative to the omitted outcome, which is the non-adoption of the director remuneration code provision.

Model 2a reports the tests of the control variables and assesses their effects on early acquiescence and late acquiescence in comparison to non-adoption. The results show several significant differences in the magnitude of coefficients between early and late acquiescence models.

As expected, the effect for firm age was negative and significant for early adopters ($b = -0.02$; $p = 0.001$) but not significant among late adopters. This effect was robust to the inclusion of the block of independent variables in model 2b.

In support of my assumptions, the effect for firm size was positive and significant among early adopters ($b = 0.21$; $p = 0.005$) and not significant among late adopters. This effect was not robust to the inclusion of the block of independent variables in model 2b.

Free float was positive and significant among both early adopters ($b = 1.14$; $p < 0.001$) and late adopters ($b = 0.47$; $p < 0.001$). The magnitude of the effect among early adopters was significantly larger than among late adopters ($p = 0.011$). This effect was robust to the inclusion of the block of independent variables in model 2b. However, in model 1b, the difference in the magnitude of the coefficients was not significant ($p = 0.061$).

Foreign sales had a significant, positive effect only among late adopters in model 2b ($b = 0.94$; $p = 0.044$). Firms that pursue business opportunities outside their home institutional context might be less concerned with pressures for reform emanating from stakeholders in their home environment and, therefore, acquiesce late rather than early.

Although not statistically significant at conventional levels of statistical significance, foreign listing had a positive effect among early adopters ($b = 0.79$; $p = 0.060$). The effect of

foreign listing among late adopters was negative and significant ($b = -0.86$; $p = 0.012$). The difference in the magnitude of the coefficients was significant ($p < 0.001$). However, these effects were not robust in the full model 2b, in which foreign listing was significant and negative only among late adopters ($b = 1.62$; $p < 0.001$). Therefore, this finding provides no support to the financial economics perspective that the cross-listings at international capital markets is a key driver for convergence of corporate governance to one common best practice standard.

Network centrality was positive and significant only among late adopters in both, model 2a ($b = 1.15$; $p < 0.001$) and model 2b ($b = 0.85$; $p < 0.001$). This result indicates that firms that are deeply embedded within prevailing corporate governance logics are slow in changing to practices that are in conflict with these logics.

The model summaries for model 1b show that the addition of the block of independent variables to the baseline model resulted in a significant Wald Chi-Square (Wald Chi-Square = 406.14; $p < 0.001$). I used model 2b to test hypotheses H16 through H20, which proposed that the hypothesized mechanisms that are positively associated with the firm's level of responsiveness to the code provision have asymmetric effects across firms that pursue acquiescence strategies early and late.

H16a and H16b stated that the direct and indirect effects of cohesion and structural equivalence emanating from a firm's social structure have more pronounced effects among late adopters. As predicted, the effect for supervisory board chair ties to prior adopters was significant among late adopters ($b = 1.21$; $p = 0.005$). H16b, that tested the effect of structural equivalence on early versus late adoption, was not significant.

Hypotheses 17a, 17b, and 17c proposed that for efficiency reasons, firms are likely to respond with early acquiescence to demands of powerful equity holders. Contrary to what was

hypothesized in H17c, the variable dominant foreign ownership was not significant among early adopters but significant and positive among late adopters ($b = 0.19$; $p = 0.019$). I found no support for hypotheses H17a and H17b that suggested that dominant government and dominant market ownership would be significantly related to early adoption.

The variable tie to code commission was significant and positive for late adopters ($b = 1.32$; $p = 0.005$) and not significant among early adopters. Postestimation analysis indicated that the difference in the magnitude of the coefficients was significant ($p = 0.007$). This finding was contrary to what was theorized in hypothesis H18.

H19a and H19b proposed that the internal representation of institutional demands by powerful stakeholders matters for the timing of the formulation of an acquiescence strategy. This argument was supported with a significant positive coefficient for labor power among early adopters ($b = 3.69$; $p < 0.001$) and an insignificant coefficient among late adopters. However, going contrary to what was hypothesized in H19b, the effect of the number of foreign nationals on a firm's board was significant among late adopters ($b = 0.16$; $p = 0.048$) and not significant among early adopters.

Hypotheses H20a, H20b, and H20c theorized that firm internal characteristics, such as the prior adoption of code-logic compatible practices, have stronger effects among early adopters than among late adopters. In support of H20a, prior US GAAP/IAS adoption was significant among early adopters ($b = 0.80$; $p = 0.011$) but not among late adopters. Postestimation analysis indicated that the difference in the magnitude of the coefficients was significant ($p = 0.040$). The coefficient for prior implementation of stock option schemes was significant and positive among early adopters ($b = 1.19$; $p < 0.001$) and significant and positive among late adopters ($b = 0.76$; $p = 0.002$). Postestimation analysis indicated that the difference in the magnitude of

the coefficients was not significant at the conventional 0.05 level of statistical significance ($p = 0.088$). Therefore, H20b was not supported. Similarly, the coefficient for code logic acceptance was positive and significant among early adopters ($b= 0.16$; $p = 0.011$) and positive and significant among late adopters ($b = 0.11$; $p = 0.004$). Postestimation analysis indicated that the difference in the magnitude of the coefficients was not significant ($p = 0.395$). Thus, the results do not provide support for H20c.

This concludes chapter 6 and the formal presentation of the results. The subsequent chapter 7 proceeds with discussing the results, outlining contributions and limitations of the study, and providing avenues for future research.

CHAPTER 7. DISCUSSION, CONTRIBUTIONS, LIMITATIONS AND FUTURE RESEARCH

The intent of this concluding chapter is fourfold: First, this chapter provides a discussion of the results and findings reported in the previous chapter. The discussion addresses the control variables and the covariates predicting the dependent variables. It also offers explanations for the reported mixed results. Second, the major contributions of this research are noted in the second section of this chapter. The third section addresses the limitations of the study. The final section suggests directions for future research and inquiry.

Discussion of Results

This study explored the following research questions: How do firms respond to national level pressures for corporate governance reform? What are the driving factors underlying firm responsiveness to these pressures? Do these factors have asymmetric effects on firms' choice to acquiesce to reform pressures early or late? I explored these questions in the context of the issuance of the German corporate governance code and the director remuneration disclosure provision. The subsequent section comments on significant control variables, followed by a discussion of the covariates that were hypothesized to predict the dependent variables.

Control Variables

The results reported in chapter 6 generally provide support for the developed multitheoretical perspective that firm responsiveness to national level pressures to reform corporate governance along shareholder value oriented lines is driven by the power and interests of firm external and internal stakeholders, intraorganizational processes of learning, and social structure effects. The findings also provide general support for the theoretical perspective that

corporate governance reform can be meaningfully portrayed and studied as institutional change. As such, my theoretical approach goes beyond the traditional legal and financial economics perspective that argues that it is primarily market and economic forces that move firms towards shareholder value oriented corporate governance. The results for the control variables show that exposure to the international capital market, exposure to the international product market, or exposure to the market for corporate control and the stock market are not robust predictors of firm responsiveness across the two specified models.

The three-category dummy control variable that captures a firm's previous choice of response strategy to pressures to reform director remuneration reporting deserves mention. Model 1b shows the following results: Compared to firms that previously pursued a defiance strategy, firms that previously pursued an avoidance strategy are significantly more responsive to reform pressures. Further, compared to firms that previously pursued a defiance strategy, firms that previously pursued a compromise strategy are significantly more responsive to reform pressures. Additionally, a postestimation test reveals that the coefficient for firms that previously pursued a compromise strategy is significantly larger than the coefficient for firms that previously pursued an avoidance strategy ($p < 0.001$). This result confirms my argument that in the examination of institutional change processes, it is important to account for heterogeneity among non-adopters of institutionally contested practices. Avoidance and compromise strategies can be considered weak and ambiguous forms of non-adoption, because these strategies aim at partially satisfying demands for reform and as such, acknowledge the existence of reform pressures (i.e., symbolically in the case of an avoidance strategy and truthfully in the case of a compromise strategy). The formulation of avoidance and compromise strategies by firms indicates that the influence of proponents of the traditional governance logic within firms is weak

to moderate and is undermined by reform pressures, which puts these firms on a "slippery path" leading to acquiescence to reform pressures. In support of this argument, the results in model 2b show that compared to firms that have previously followed a defiance strategy or an avoidance strategy, firms that have previously pursued a compromise strategy are more likely to fully acquiesce to institutional pressures for reform early in the diffusion process of the code practice. In contrast to avoidance and compromise strategies, a defiance strategy is the strongest and most active form of non-adoption. This strategy entails overt rejection of reform pressures and indicates a strong influence of proponents of the traditional governance logic. Firms that pursue a defiance strategy have likely rejected the existence of the problems that code provisions address and attempt to solve. Further, it can be assumed that firms that do not buy into the reform process and do not pursue avoidance or compromise strategies are likely to continue to use the rhetoric associated with the traditional governance logic, to downplay the importance of the code recommendation, and to accentuate the cost of its implementation. Thus, firms that previously pursued a defiance strategy are significantly less responsive to reform pressures than firms that previously pursued avoidance or compromise strategies.

The control variable post reform indicates that in the year 2006 the code commission required a public debate and vote on the director remuneration disclosure code provision at the annual shareholder meeting. This regulatory change is positively associated with firms' level of responsiveness to the code provision, implying that the larger the number of stakeholders involved in making decisions regarding governance reform, the higher the firms' level of responsiveness to national level pressures for reform.

This section proceeds with a discussion of the results of the hypotheses tests that predict strategic firm responsiveness to corporate governance reform pressures, followed by a discussion

of the results for the covariates that predict a firm's timing of acquiescence to corporate governance reform pressures.

Strategic Firm Responsiveness to Reform Pressures

The following paragraphs discuss the results of the hypotheses tests of the effects of powerful stakeholders, organizational learning, and cohesion and structural equivalence on strategic firm responsiveness to corporate governance reform pressures.

Powerful Stakeholders and Their Preferences

Only one of the five variables that capture the diverse preferences of powerful equity holders has a significant effect on firm responsiveness to reform pressures. I tested whether the presence of a particular owner type as a dominant firm owner, rather than the equity holdings of the dominant owner would result in an improved model fit. The results, however, were not sensitive to this alternative operationalization of dominant owner influence.

The ownership variable that shows significant effects proxies a firm's resource dependence on a dominant market owner. The argument put forward is that concentrated equity holdings are a measure of the power of shareholders, whereas shareholders' identities affect how they interpret national level reform pressures and what priorities they give to pursuing shareholder value oriented goals versus other goals. Power and identity of shareholders interact and are reflected in the level of responsiveness of firms that have resource dependencies on these shareholders. This argument is only supported in the case of market owners that hold firm equity primarily for investment purposes (i.e., they operate at arm’s length with firms). This finding reflects the increasing demand of former German "stable owners," such as the Deutsche Bank or

the Commerzbank, for shareholder value management and their increasing concerns about the return on their equity holdings in other German firms (Boersch, 2007).

The lack of support for an effect of state or federal government ownership appears to be surprising, given that the Federal Ministry of Justice appointed the Government Commission on the German Corporate Governance Code (Cromme, 2005). However, the German government may have developed the code mainly for legitimacy reasons rather than with the intent to dramatically influence and change the corporate governance of German companies. Prior to the issuance of the German code, a large number of codes had been issued by other developed economies including the USA, the UK, and Japan (Aguilera & Cuervo-Cazurra, 2009). Institutional theory suggests that the German Government as a late or momentum adopter would be more likely to adopt a code symbolically rather than substantially (Oliver, 1991; Tolbert & Zucker, 1983). The finding that government ownership in firms as well as the cooptation of firms by the government into the code commission has no statistically significant effect, may suggest that the German government issued the code to legitimize national companies in the global financial market, but with no intent to substantially change firms' corporate governance. However, the symbolic adoption of a code at the national level may also allow Germany to derive economic benefits from it. At the firm level of analysis, Westphal and Zajac (1998) found that the market price of corporations increased when they adopted a widely diffused legitimate practice, regardless of whether they implemented it or not. This symbolic perspective on corporate governance reform may also hold at the national level of analysis and explain the nonsignificant findings for government ownership and firm ties to the code commission.

Resource dependencies on foreign shareholders show no statistically significant effect. Foreign investors are typically multinational institutional investors, such as CalPERS, TIAA-

CREF, or DWS, that have no on-going business ties with firms in which they hold equity positions. Even as dominant owners, these types of investors usually hold low equity stakes in firms, which may weaken their power to influence governance reform decisions within firms. Additionally, multinational institutional investors may be more concerned with lobbying for reform at the political and national level in order to build a suitable regulatory context for their diversified investments. For example, CalPERS regularly publishes corporate governance reports and guidelines regarding their investments in particular economies. In the case of Germany, those guidelines were taken into account when the Government Commission developed the code (Cromme, 2005).

While resource dependencies on foreign owners do not affect firms' reform efforts, the presence of foreign executives on a firm's board of directors has a statistically significant effect. This supports Pfeffer's (1992) thesis that problems of reform implementation are, in many instances, problems of a lack of intraorganizational support to do so. Executives who possess mental models and cognitive bases that are congruent with the interests of a resource provider may encourage decision making in the strategic apex of firms that are consistent with resource providers' interests. Additional analysis of my data shows that the interaction between dominant foreign ownership and the presence of foreign executives on a firm's board is positive and significant at the 0.10 level of statistical significance ($b = 0.237$; $p = 0.079$). This finding provides support for Greenwood and Hinings' (1996) perspective on radical organizational change which suggests that the effects of external resource dependencies are strengthened by the firm internal representation of external demands. This argument also applies to the other hypotheses that are derived from resource dependence theory and may explain the many insignificant findings for the ownership covariates.

Additionally, the non-significant finding for stable owners and inside owners may be explained by the fact that German companies and banks, as well as German families, individuals, and their associated holdings and foundations significantly reduced their equity holdings in firms during the observation period of this study and therefore lost influence as dominant owners (see tables 6 & 7). This development is likely driven by the capital gain tax reform in the year 2002, that eliminated capital gain taxes on divestitures of equity stakes.

The discussion so far is focused on the firm stakeholders capital and management. Additionally, I argue that labor, as the third key stakeholder in the German corporate governance system, would reinforce national level pressures on firms for governance reform in the communicative dimension of shareholder value. I also argue that to accomplish the goal of codetermination, that is to monitor and control economic power, labor representatives need transparency and accurate company information, and therefore, if given enough power inside firms would strengthen national level pressures on firms to improve director remuneration disclosure. The results show that labor power has no statistically significant effect when operationalized as the ratio: supervisory board seats taken by labor divided by the total number of supervisory board seats. However, from an agency theory perspective, I did not take into consideration the possibility that excessive labor representation on supervisory boards may lead to unique agency problems in firms and that excessive labor influence may create an environment in which worker representatives view a firm as their "country club", side with management, and pay themselves director salaries that they do not want to disclose to external stakeholders (Fauver & Fuerst, 2006). This argument is supported by Gordon and Schmid (2004) who find that moving from one-third to one half-labor representation on a firm's supervisory board destroys firm value. Supplemental analysis of my data and the test of a dummy variable

that indicates whether labor representatives occupy at least half of a firm's supervisory board seats results in a statistically significant negative coefficient (b = -0.695; p = 0.050) and lends support to the previous argument. The other variables in the model were not sensitive to this model specification. Additional analysis also reveals that labor power negatively moderates (b = -0.047; p = 0.056) the statistically significant positive effect of market owners on firms' reform efforts. This finding provides additional evidence that labor representatives, if given increasing power inside firms, may introduce unique agency problems. While at small levels of labor influence, employee representatives may not have enough knowledge of the code or the power to influence board decisions to reform director remuneration, with increasing labor representation on boards, employee representatives may push for policy changes in firms that are in line with the goals of codetermination. Alternatively, at excessive levels of labor representation employee representatives may entrench themselves at the cost of other firm stakeholders. Adding a squared term for labor representation in model 1b, results in a significant and positive main effect for labor representation on the supervisory board on firm responsiveness (b = 4.527; p = 0.007), while the coefficient for the squared term is negative (i.e., indicating an inverse "U" shaped relationship) and significant (b = -7.729; p = 0.011). Furthermore, the addition of the squared term for labor representation increases the model fit significantly (Wald Chi2 Change = 6.52; p = 0.011). Additionally, I follow the guidelines of Kutner et al. (2004) and calculate the maximum point for the curvilinear effect by using the following equation: $X_{max} = -b1/2b2$ where *b1* is the coefficient for the main effect and *b2* is the coefficient for the squared term. Solving this equation results in identifying the maximum point as 30 %, implying, from an agency theory perspective, that labor representation on supervisory boards above this percentage introduces problems that are at odds with the intended goals of codetermination.

Alternatively, from a stewardship perspective, the explanation for the curvilinear effect may be that codetermination beyond 30 % representation functions as a substitute for transparency and disclosure practices. A strong presence of employee representatives on supervisory boards may reduce possible information asymmetries between management and labor and may allow labor to access sources of company information. Therefore, through a strong inside position, labor representatives may be able to gain sufficient information to pursue the goal of codetermination and may be less interested in supporting governance reform pressures that increase company transparency.

In sum, the three critical firm stakeholders, capital, labor, and management, play important roles in magnifying and attenuating national level pressures for corporate governance reform. However, for a more complete understanding of their influence on corporate governance reform, it appears to be important to take into consideration that there exist multiple, conflicting as well as consistent, stakeholder expectations that are exerted on firms.

Organizational Learning Processes

The previous chapter reported mixed findings for the hypotheses that built upon the argument that when a code provision is consistent with existing values, past experiences, and needs of firms, firms are more likely to engage in further compatible reform efforts. Whereas the previous adoption of practices in the communicative dimension of the shareholder value concept (i.e., IAS/U.S. GAAP) has no significant effect on firms' level of responsiveness to the director remuneration reporting provision, the previous adoption of practices in the compensation dimension of the shareholder value concept (i.e., ESOs) has a significant positive effect on firms' level of responsiveness to the director remuneration reporting provision. This implies that not all

prior experiences with shareholder value oriented practices are equally affecting future reform efforts towards shareholder value orientation. From the perspective of the stakeholder group top management, the beneficiaries of ESOs, ESO adoption and remuneration disclosure may be complementary in that additional disclosure of company information may increase the value of the firm's stock and, therefore, the value of ESOs. It is also possible that powerful executives manipulate ESO schemes in self-serving ways and defy pressures for disclosure. Therefore, other stakeholders of firms in which ESOs are used may develop an understanding of this issue and push for disclosure to avoid possible negative effects of undisclosed ESO use on firm performance. Supplemental data analysis shows that ESO adoption is significantly negative related to accounting returns (i.e., ROA) ($b = -2.40$; $p = 0.014$), controlling for prior performance, industry and year effects, firm age, firm size, ownership concentration, foreign ownership, adoption of the director remuneration reporting provision, and IAS/U.S. GAAP use. However, the interaction between ESO adoption and a dummy variable that indicates that a firm had adopted the director remuneration reporting provision is positive and significant ($b = 2.43$; $p = 0.031$). Furthermore, the addition of the interaction term increases the model fit significantly (R2 Change = 20.00; $p = 0.035$). This suggests the importance of examining "bundles" of governance mechanisms rather than the effects of individual mechanisms in isolation.

IAS/U.S. GAAP adoption is not found to be a significant driver of responsiveness to director remuneration disclosure. Although I argue that those two practices are compatible, there is a possibility that they do not share the same underlying institutional corporate governance logic. In contrast, the variable that proxies a firm's level of acceptance of the institutional logic underlying the corporate governance code shows to be a significant predictor of responsiveness to the issuance director remuneration reporting.

In sum, not all prior experiences with corporate governance reform have equal effects on future reform efforts. The previous adoption of shareholder value oriented practices appears to lead to higher levels of responsiveness to pressures for additional reform if existing and new practices are connected by the same institutional logic and/or if the combination of existing and new practices result in complementarities that are beneficial for firm stakeholders.

Social Context: Cohesion and Structural Equivalence

The set of hypotheses that examines the effects of social structure on a firm's level of responsiveness to reform pressures receives strong statistical support. I argue that there are competing influences emanating from cohesion and structural equivalence that affect firm responsiveness to the issuance of the code provision. Direct and indirect ties to firms that acquiesce to reform pressures facilitate reform efforts in a focal firm, whereas ties to firms that pursue defiance strategies suppress reform efforts in a focal firm. Additionally, I argue that an interlock is more likely to be influential if it is centrally involved in the focal firm's decision making processes. While these hypotheses receive support, the results additionally revealed that normative pressures for and against reform are significant predictors of firm responsiveness when those pressures filter into firms through the focal firm's chairman of the supervisory board. Interlocks to adopters and defiers of the code provision via the chairman of the management board (commonly referred to as the CEO) have no significant effect on the focal firm's level of responsiveness. This finding may reflect the fact that the position of a German CEO does not have significantly more structural power than the other positions on a management board (Devinney, Pedersen, & Tihanyi, 2010). Corporate governance regulations in Germany stipulate that the members of the management board share collective authority and responsibility for a

company (Du Plessis et al., 2007). In Germany's low power distance culture, control is less accepted, participative communication and meeting styles are common, and most decisions are made and borne not by the CEO but by the management board as a whole (Hofstede, 1997). In contrast, the position of the chairman of the supervisory board has significant structural power as it constitutes the link between management and supervisory board. The chairman of the supervisory board typically chairs the committees that handle contracts with members of the management board and he/she is expected to be in constant and close contact with the management board and to consult with its members on strategy and business development. This position's structural power is intensified in that the chairman is responsible for preparing the minutes of the supervisory board meetings and also has a casting vote in certain instances (Du Plessis et al., 2007). It is through this position that there is a continuous interrelationship between the supervisory board and the management board, notwithstanding the fact that German supervisory boards only meet three or four times a year (Baums & Scott, 2005). Therefore, normative pressures for or against corporate governance reform that filter into a firm via the chairman of the supervisory board have a stronger bearing on firm responsiveness than pressures that reach a firm via other interlocks.

In sum, while the traditional focus in the interlock literature is on processes of successful "contagion" of actors, the results show that it is important not to omit from consideration the suppressive effects on governance reform processes that emanate from within a firm's social structure. Furthermore, for a more complete understanding of the effects of social structure on firms, it should not be assumed that all social ties are equally important in filtering normative pressures into firms.

Timing of Acquiescence to Reform Pressures

The subsequent paragraphs discuss the results of the hypotheses tests of the asymmetric effects of powerful stakeholders, organizational learning processes, and cohesion and structural equivalence on a firm's propensity to adopt the response strategy acquiescence early or late.

Powerful Stakeholders and Their Preferences

I hypothesized that early acquiescence to the director remuneration reporting provision is driven by a firm's equity ownership structure, which I argue to be an indicator of a firm's efficiency needs. However, resource dependencies on the hypothesized pro-reform oriented capital providers government, market, and foreign owners do not predict early acquiescence. In the previous section, I discussed possible reasons as to why dominant government ownership may have no significant effect on firm responsiveness to the issuance of the code provision. The explanations provided in the previous section also help to understand the non-significant results for early acquiescence in model 2b.

One finding, that is contrary to what was hypothesized, deserves mention: Firm ties to the code issuing agency have stronger effects among late adopters of an acquiescence strategy than among early adopters of an acquiescence strategy. Previously, I argued that the German government as a momentum or late adopter of a corporate governance code may have developed the code for symbolic reasons rather than with the intent to substantially change the corporate governance of German listed firms. The cooptation of German firms by the Corporate Governance Code Commission may, therefore, also serve a symbolic rather than a substantive purpose. However, it is important not to exclude from consideration the possibility that firms may have voluntarily chosen to place their executives or directors on the code commission

because they agree with the corporate governance reform policy. In this case firms that have initially defied reform pressures become exposed to other firms that identify with and promote the code logic and may consequentially begin to reevaluate the logic underlying their corporate governance orientation. This process may take a considerable amount of time and result in late adoption of acquiescence strategies to reform pressures.

The finding that dominant market ownership does not predict early adoption and that dominant foreign ownership significantly predicts late adoption is puzzling. A possible explanation for the generally mixed effects of dominant ownership in both, model 1b and model 2b, may be that firms are affected by resource dependencies on multiple capital providers that confront firms with multiple conflicting demands and pressures (Jara-Bertin et al., 2008). Although I found that only 20 % of the German listed firms have more than two registered shareholders and that the average size of the second largest shareholder is only around 7 %, firms might still find it difficult to acquiesce to the demands of a dominant capital provider if this would require defying the demands of other capital providers. Gaining and maintaining legitimacy with one capital provider may simultaneously constrain a firm’s behavior in meeting other capital provider's demands. It may be that the dependence on a multiplicity of capital providers with conflicting identities, strategies, and interests has a moderating effect on a firm’s level of responsiveness to any particular shareholder's demands. When demand multiplicity is low, the most likely strategic response to the demands of a constituent is acquiescence. On the other hand, when multiplicity is high and different capital providers of a firm favor different demands regarding the implementation of governance practices, firms may be more likely to pursue more resistant strategies such as balancing and compromise strategies in the face of these conflicting pressures (Pache & Santos, 2010). These arguments may explain the mixed results

with regards to my hypotheses' focus on effects of resource dependencies on merely the dominant capital provider.

Further, contrary to what was hypothesized, the presence of foreign executives on a firm's board of directors predicts late acquiescence to reform pressures. Although the different norms, values, experiences, and perspectives that foreign nationals bring into a domestic firm's top management team have the potential to weaken historically rooted cultural biases about local corporate governance practices, this process may take a considerable amount of time to unfold and to undermine a firm's commitment to a domestic corporate governance logic. Additionally, the number of firms with foreign board members, as well as the number of foreign executives on German firms' boards, increased significantly during the observation period of this study (see table 7). These dynamics, in sum, may explain the significant effect of foreign top management among firms that acquiesce late to reform pressures.

Whereas labor representation on supervisory boards predicts early acquiescence to the director remuneration reporting provision, additional analysis shows that labor representation of at least one-half has a significant negative effect on early acquiescence ($b = -3.368$; $p < 0.001$), as well as, a significant negative effect on late acquiescence ($b= -4.100$; $p < 0.001$). This finding confirms the previously discussed peculiar role of organized labor in governance reform.

In sum, the three critical firm stakeholders, capital, management, and labor play important roles in influencing firms' early and late acquiescence to corporate governance reform pressures.

Organizational Learning Processes

I hypothesize that to the extent that the director remuneration disclosure code provision is consistent and compatible with firm internal organizational characteristics, values, experiences, and needs, a firm will be more likely to formulate an acquiescence strategy to pressures to adopt the code provision during the early periods of the diffusion process. The routines that firms establish during prior corporate governance reform efforts allow them to recognize and incorporate compatible practices that are presented to them in their external institutional context. The results show that firms that have had experiences with the adoption of more transparent accounting standards were more likely to acquiesce early to environmental pressures to provide transparency in director remuneration reporting. This type of organizational learning that encourages path dependent decision making is an important mechanism that accounts for the increasing heterogeneity that has been observed in firms' corporate governance arrangements within national systems of corporate governance (Jackson & Moerke, 2005; Sydow, Schreyoegg, & Koch, 2009). The organizational routines established by the prior adoption of ESOs and by the prior adoption of other code provisions do not have asymmetric effects on the timing of acquiescence but instead equally affect both early adopters and late adopters of acquiescence strategies.

In sum, these findings confirm the previous argument that the shareholder value concept has multiple dimensions and that a firm's previous adoption of practices in one dimension of the concept (e.g., compensation) does not make the firm more likely to take a leadership role in the process of institutional change in another dimension (e.g., transparency).

Social Context: Cohesion and Structural Equivalence

I argue that ties via directors to interlocked firms that have previously acquiesced to reform pressures and the number of structural equivalent firms that have previously acquiesced to reform pressures place normative pressures on a focal firm to acquiesce and that these effects would be stronger among firms that pursue acquiescence strategies late than among firms that pursue acquiescence strategies early. The results lend support to the hypothesized effects of direct board interlocks. For the reasons discussed at length above, normative pressures for corporate governance reform that filter into a firm via the chairman of the supervisory board have a stronger bearing on firm responsiveness than normative pressures that reach a firm via other interlocks. The difference in the magnitude of the coefficients between the effects of the chair of the supervisory board and the CEO is significant ($p < 0.001$). In contrast to the effects of direct ties to previous adopters, the prior adoption of the director remuneration disclosure provision by a firm's industry peers had no statistically significant effect.

In sum, the results of the effects of cohesion and structural equivalence on firms' propensity to pursue acquiescence strategies early or late reflect the previously discussed findings reported in model 1b.

Contributions to the Literature

To my knowledge, this dissertation is the first study that (partly) operationalizes Oliver's (1991) continuum of strategic firm responses to institutional change processes in corporate governance systems in one dependent variable and empirically tests a multitheoretical framework that predicts firms' level of strategic responsiveness to institutional change processes. The study highlights that firms within national systems of corporate governance pursue a range

of strategies in response to reform pressures that are not captured by research that merely examines adoption versus non-adoption strategies in response to institutional processes.

This differentiated view of firm response strategies allows the exploration of conflicting pressures on firm responsiveness emanating from processes of cohesion and structural equivalence. This is a novel perspective in that traditional research on the interlocking directorate emphasizes the effects of ties to adopters. In contrast, the results of this study highlight the important role of ties to firms that pursue defiance strategies in response to institutional pressures for change. Those are important ties in that they have the potential to slow down and place obstacles in the path of institutional change processes to take hold at the firm level.

Further, this research adds to the knowledge of the role of labor representatives in corporate governance reform processes. To be sure, in Anglo-American economies employees do not enjoy a strong voice in the corporate governance of firms, but to conclude from this observation that employees *in general* have no relevant governance function would ignore the central role of labor representatives in boards across Europe. Besides Germany, a majority of the 27 European Union member countries grant labor the legal right to place their representatives on the boards of private and state owned companies (Lowitzsch, 2009). This study reintroduces this stakeholder group into corporate governance research that tends to focus on financial firm stakeholders.

This dissertation also recognizes the important role of the stakeholder group top management in institutional change processes. Whether corporate leaders function as promulgators of historically grown corporate governance logics in the face of national level pressures for reform, depends on the degree to which they are rooted in domestic corporate governance contexts. The finding that the nationality of top executives matters in institutional

change processes in corporate governance systems adds a new variable to the set of demographics that had been examined in previous related research.

Finally, the study suggests that the issuance of a national corporate governance code can be meaningfully conceptualized and studied as a process of institutional change. The developed multitheoretical framework was built upon an institutional theory foundation and the findings generally provided support for the hypotheses derived from this framework. As such, this study contributes to the development of corporate governance research beyond the traditional legal/financial economics perspective.

Limitations and Avenues for Future Research

Like all empirical research, this study has some inherent limitations that affect the generalizability of the reported findings and that call for caution in interpreting the results.

First, the unique and path-dependent circumstances that define Germany's variety of capitalism, and thus the country's corporate governance system, may not allow a generalization of the findings to other varieties of capitalism. Convergence and divergence dynamics in the context of corporate governance unfold differently in different institutional contexts.

Second, the nature of the code provision that was examined as an example of an institutionally contested practice may limit the generalizability of the uncovered mechanisms underlying firm responsiveness to that provision. In the context of this study, the adoption of a code practice that discloses executive and director remuneration practices and levels to other firm stakeholders is not in the personal interest of individual managers. However, there are other code practices, such as the adoption of ESOs, that are more in the individual interest of top managers rather than in the general interest of the firm and outside stakeholders. Thus,

depending on the code provision, the theorized mechanisms that drive or suppress firm responsiveness may differ. For example, CEO board interlocks to prior adopters of ESOs may be more consequential for a firm's adoption decision than supervisory board chair interlocks to prior adopters of ESOs.

Third, data limitations did not allow to fully operationalize Oliver's (1991) five strategic responses to institutional processes. It was not possible to observe firms that pursued manipulation strategies, the most active forms of resistance strategies to institutional processes. Firms may have attempted to influence the letter of the code and may have lobbied the regulatory body (i.e., the Code Commission), or even the legislator (i.e., the Ministry of Justice) to refrain from making director remuneration disclosure mandatory for all stock exchange listed companies and to incorporate an exception in the 2006 revision of the code that allows firms to opt for non-disclosure for a duration of five years. The study does not account for these dynamics. Thus, this study only partly operationalized Oliver's (1991) typology and disregarded the response strategy manipulation.

Fourth, the measure that captures the power of labor on a firm's supervisory board does not take into account the potential effects of union membership. Several unions were strong advocates of the director remuneration reporting provision. However, data on union membership at the firm level are not available in Germany. Thus, I could not account for the possible effects of union representatives on the supervisory boards. Finally, rather than to proxy labor power by the number of labor representatives on supervisory boards, a relative influence measure of labor vis-a-vis management may yield additional insightful results.

Fifth, the board interlock measures were calculated only for the CEO and the chairman of the supervisory board of a focal firm. These two positions confer a relatively high degree of

structural power on the incumbents of these positions. Thus, it is more likely that normative pressures for or against reform, that filter into firms via these two positions, reach the relevant decision processes in a firm and influence the formulation of response strategies in the dominant coalition. However, other dimensions of power may be relevant as well. For example, normative pressures for or against reform may more easily filter into a firm via managers that enjoy a relatively high degree of ownership power, expert power, prestige power, or social-psychological power within a dominant coalition (Finkelstein, 1992). In the future, it would be interesting to include all board interlock ties and to examine the effects of the individual tie's socio-political/psychological makeup on process of institutionalization of normative pressures in a dominant coalition.

Sixth, the focus on top management's national background may have understated the influence of other demographic variables that can function as drivers of or barriers to deinstitutionalization of established corporate governance practices. In the future, it would be interesting to examine the role of education, age, international experience, functional track, career experiences, socioeconomic roots, financial position, and group characteristics in how national level pressures to adopt institutionally contested practices filter down to the firm level (Hambrick & Mason, 1984).

Beyond these limitations, which provide fruitful areas for future research, this study also suggests several theoretically, as well as practically important directions for additional inquiry.

First, it would be interesting to examine whether the disclosure of compensation information can lead to an escalation of compensation levels within a corporate governance system. Although the individual executive might view the disclosure of his/her pay as intrusive of his/her privacy and might want to avoid disclosure, in the long run, however, he/she might

draw financial benefits from disclosure (Iacobucci, 1998; Khurana, 2004; Park, Nelson, & Huson, 2001). Disclosure allows those who set remuneration arrangements in firms to find out about the market rate for managers and directors offered by comparable firms. This might put pressure on firms to ensure that their remuneration arrangements are not below average, if they are concerned about corporate prestige, director recruitment, or director retention. Consequently, if all firms seek to match or exceed the average, an overall increase in compensation levels will result. Empirical evidence from Canada supports this argument (Park et al., 2001). In Germany, there exists some anecdotal evidence and also data that shows a rapid increase in per-capita compensation of top management board directors following the introduction of the code provision in 2002 (Boecking, 2010; Der Spiegel, 2007; Handelsblatt, 2009). From a political perspective, it is somewhat ironic that the Social Democratic Party of Germany (SPD), that was concerned that managers and board directors are paid too much and that lobbied the governance commission to include a remuneration disclosure recommendation in the code, might have in the end contributed to an increase in executive remuneration (Cioffi & Hoepner, 2006; Toeller, 2009). The empirical examination of the relationship between compensation disclosure and its effects on overall compensation levels in Germany is an interesting area for future research.

Second, future research may also examine the performance implications of firms' response strategies to the issuance of a national corporate governance code. Drawing from the Costs, Contingencies, and Complementarities Framework proposed by Aguilera et al. (2008), it can be argued that there exists no one-size-fits-all approach to achieve effective corporate governance (i.e., to assure financiers that they get a return on their financial investments in firms) and that the adoption of all practices recommended by a Code of Good Corporate Governance may not necessarily be the optimal choice for a firm. Effectiveness is more likely achieved if a

firm's corporate governance is structured depending on firm specific costs, contingencies, and complementarities. While the full adoption of a national corporate governance code can by no means assure effective corporate governance (before its collapse, Enron was fully compliant under the existing U.S. Code), a firm that provides justifications as to why it did not adopt particular code provisions may signal that it weighted the advantages and disadvantages of adoption according to costs, contingencies, and complementarities. Thus, such firms are more likely to be effectively governed compared to firms that follow a box-ticking approach and adopt all code practices and firms that provide no justifications for non-adoption. The German code regime lends itself well to examine these propositions. Between 2002 and 2006, German firms were not compelled to provide explanations when they chose not to adopt code recommendations. After 2006, firms were obliged to provide explanations for deviations from the code. A preliminary two stage least squares analysis of the effects of code adoption behavior on ROCE reveals that, controlling for industry effects, year effects, firm age, firm size, ownership concentration, foreign ownership, and prior performance, firms that consciously adopt the code (i.e., provide explanations for non-adoption) outperform firms that fully adopt the code and firms that do not provide explanations for non-adoption. The coefficient for firms that fully adopt the code is negative but not significant. Additionally, future research may also utilize Aguilera et al.'s (2008) Cost, Contingency, and Complementarities Framework to explore the information content of the provided explanations.

Third, since corporate governance codes consist of a set of related provisions that are issued concurrently, future research may examine the firm performance implications of bundles of code practices. Recent research suggests the importance of viewing internal corporate governance as a system of interrelated elements that can substitute or complement each other

(Aguilera et al., 2008; Filatotchev, 2007; Filatotchev & Nakajima, 2010; Rediker & Seth, 1995). Thus, effective internal corporate governance may not depend on individual good corporate governance drivers, but on how sets of practices operate as a whole. For example, the effectiveness of top management team equity holdings may depend upon the presence of other complementary factors, such as the disclosure of remuneration levels and practices. This question is an important area for future inquiry, since research has been struggling to identify meaningful relationships between individual internal corporate governance mechanisms and firm financial performance (Dalton et al., 2003; Dalton et al., 1998). Preliminary analysis of my data suggests that on the one hand, ESO adoption is significantly negative related to accounting returns (i.e., ROA), when controlled for prior performance, industry effects, year effects, firm age, firm size, ownership concentration, foreign ownership, adoption of the director remuneration reporting provision, and IAS/U.S. GAAP use. However, the interaction between ESO adoption and a dummy variable that indicates that a firm had adopted the director remuneration reporting provision is positive and significant. The important theoretical point here is that the effectiveness of corporate governance mechanisms cannot be seen in isolation. Thus, future research needs to emphasize the importance of examining the functioning of corporate governance practices as bundles, rather than as single isolated factors.

Fourth, while the formulated hypotheses examined the effects of the three critical firm stakeholder groups capital, labor, and management on governance reform individually, future research may examine how these stakeholder groups interact in this reform process. Some stakeholder groups may form coalitions with others. For example, as reported above, foreign nationals on a firm's board of directors significantly strengthen the effect of foreign resource providers on firms' reform efforts. In contrast, some stakeholder groups may contest the demands

of other stakeholder groups. For example, as discussed previously, excessive labor representation significantly weakens the pressures for governance reform emanating from market oriented capital providers. Additionally, future research might examine how the influence of a particular resource provider on a firm's response strategy is strengthened or attenuated by the presence of other resource providers. Thus, the examination of the intraorganizational microdynamics in governance reform appears to be a meaningful avenue for future research.

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APPENDIX A
DECLARATION OF CONFORMITY AT BMW AG

Declaration of the Board of Management and Supervisory Board of Bayerische Motoren Werke Aktiengesellschaft with respect to the recommendations of the "Government Commission on the German Corporate Governance Code" pursuant to § 161 of the German Commercial Code

The Board of Management and Supervisory Board of Bayerische Motoren Werke Aktiengesellschaft declare the following with respect to the recommendations of the Government Commission on the German Corporate Governance Code:

As stated in the Declaration of Compliance dated 3 December 2003, the recommendations published in the official section of the electronic Federal Gazette on 26 November 2002 (Code version dated 7 November 2002) have been complied with, with the exception of the following divergence which, however, have not resulted in any specific disclosure:

– The purchase and sale of shares in BMW AG or derivative instruments relating to shares in BMW AG by members of the Board of Management and Supervisory Board are published in accordance with § 15 a of the German Securities Trade Act, but are not additionally disclosed in the Notes to the Group Financial Statements (section 6.6 GCGC).

The recommendations published in the official section of the electronic Federal Gazette on 4 July 2003 (Code version dated 21 May 2003) have been complied with, with the exception of the following divergences:

– The discussion and regular review of the structure of the compensation system of the Board of Management is performed by the Personnel Committee and not, additionally, by the Supervisory Board (section 4.2.2 paragraph 1 GCGC).

– The compensation of the members of the Board of Management is disclosed in the Notes to the Group Financial Statements subdivided according to fixed and performance related components, but not by individual person (section 4.2.4 sentence 2 GCGC).

– The compensation of the members of the Supervisory Board in the Notes to the Group Financial Statements is subdivided into its components, but not by individual person (section 5.4.5 paragraph 3 GCGC).

– The purchase and sale of shares in BMW AG or derivative instruments relating to shares in BMW AG by members of the Board of Management and Supervisory Board are published in accordance with § 15 a of the German Securities Trade Act, but are not additionally disclosed in the Notes to the Group Financial Statements (section 6.6 paragraph 2 GCGC).

Munich, 2 December 2003

Bayerische Motoren Werke
Aktiengesellschaft

Supervisory Board   Board of Management

Reason for divergences

Section 4.2.2 sentence 1 GCGC:
The Supervisory Board has transferred the discussion and regular review of the structure of the compensation system of the Board of Management to the Personnel Committee. The Supervisory Board is informed on a regular basis of the work of the Committee.

Section 4.2.4 sentence 2 and 5.4.5 paragraph 3 GCGC:
The principles of the compensation of the members of the Board of Management and Supervisory Board are made known on the Internet in an easy to understand format and discussed in the Annual Report. In addition, the total remuneration of the Board of Management and Supervisory Board, subdivided into fixed and performance-related components are disclosed. The Chairman of the Supervisory Board also reports on these principles and any changes thereto at the Annual General Meeting.

In the opinion of the BMW Group, this scope of reporting provides adequate transparency. It enables the remuneration system to be assessed by comparison with other enterprises and on the basis of the performance of the Group.

Section 6.6 paragraph 2 GCGC (Directors' Dealings)
The purchase and sale of share in BMW AG by members of the Board of Management and Supervisory Board are posted on a timely and up-to-date basis on the BMW Group website. Each notification is reported on the Internet for at least 30 days. From the perspective of the BMW Group, the interests of shareholders and other stakeholders as required by § 15 of the German Securities Trade Act are met. A retrospective list showing transactions, which in an extreme case, could be more than one year old, does not provide any additional informational value and does not serve any purpose.

Source: BMW AG Annual Report 2003

APPENDIX B
REMUNERATION REPORT BEFORE THE ADOPTION OF THE CODE PROVISION AT SIEMENS AG

24 Bezüge des Aufsichtsrats und des Vorstands sowie gewährte Kredite

Die Gesamtbezüge des Aufsichtsrats betragen im Berichtsjahr 3,6 (i.V. 0,9) Mio. EUR, davon entfallen auf feste Bezüge 0,1 (i.V. 0,1) Mio. EUR und auf variable Bezüge 3,5 (i.V. 0,8) Mio. EUR. Die Gesamtbezüge des Vorstands belaufen sich auf 21,7 (i.V. 12,0) Mio. EUR, davon entfallen auf Gehälter 4,0 (i.V. 3,9) Mio. EUR, auf variable Bezüge 15,1 (i.V. 8,1) Mio. EUR und auf den Marktwert der Bezugsrechte aus dem Siemens-Aktienoptionsplan 1999 2,6 Mio. EUR. Die früheren Mitglieder des Vorstands und deren Hinterbliebene erhielten Ruhegehälter und Übergangsbezüge von 12,2 (i.V. 12,7) Mio. EUR. Für Pensionsverpflichtungen gegenüber früheren Mitgliedern des Vorstands und deren Hinterbliebene sind 95,6 (i.V. 98,1) Mio. EUR zurückgestellt.

Die im Vorjahr an Mitglieder des Vorstands zu einem Zinssatz von 6% gewährten Darlehen von 0,2 Mio. EUR wurden im Berichtsjahr vollständig getilgt.

Die Mitglieder des Vorstands der Siemens AG sind auf den Seiten 101, 102 und 103 dieses Geschäftsberichts aufgeführt. Die Mitglieder des Aufsichtsrats der Siemens AG sind auf Seite 100 genannt.

Source: SIEMENS AG Annual Report 2001, p. 84

APPENDIX C
REMUNERATION REPORT AFTER THE ADOPTION OF THE CODE PROVISION AT SIEMENS AG

Vergütungsbericht

Der Vergütungsbericht fasst die Grundsätze zusammen, die auf die Festlegung der Vergütung des Vorstands der Siemens AG Anwendung finden, und erläutert Höhe sowie Struktur der Vorstandseinkommen.

Außerdem werden Grundsätze und Höhe der Vergütung des Aufsichtsrats beschrieben sowie Angaben zum Aktienbesitz von Vorstand und Aufsichtsrat gemacht.

Der Vergütungsbericht richtet sich nach den Empfehlungen des Deutschen Corporate Governance Kodex und beinhaltet Angaben, die nach den Erfordernissen des deutschen Handelsrechts, erweitert durch das neue Gesetz über die Offenlegung der Vorstandsvergütungen (VorstOG), Bestandteil des Anhangs nach § 314 HGB bzw. des Lageberichts nach § 315 HGB sind.

Auf eine zusätzliche Darstellung der im Vergütungsbericht erläuterten Informationen im Anhang bzw. Lagebericht wird daher verzichtet.

1. Vergütung des Vorstands

Für die Festlegung der Vorstandsvergütung ist das Präsidium zuständig, dem der Aufsichtsratsvorsitzende Dr. Heinrich v. Pierer und die beiden stellvertretenden Aufsichtsratsvorsitzenden Dr. Josef Ackermann und Ralf Heckmann angehören.

Die Festlegung der Vergütung der Mitglieder des Vorstands der Siemens AG orientiert sich an der Größe und der globalen Tätigkeit des Unternehmens, seiner wirtschaftlichen und finanziellen Lage sowie an der Höhe und Struktur der Vorstandsvergütung bei vergleichbaren Unternehmen im In- und Ausland. Zusätzlich werden die Aufgaben und der Beitrag des jeweiligen Vorstandsmitglieds berücksichtigt. Die Vergütung ist so bemessen, dass sie am internationalen Markt für hoch qualifizierte Führungskräfte wettbewerbsfähig ist und Anreiz für erfolgreiche Arbeit in einer High-Performance-Kultur gibt.

Die Vergütung des Vorstands ist leistungsorientiert; sie setzt sich im Geschäftsjahr 2005 aus vier Komponenten zusammen: (i) einer festen Vergütung, (ii) einem variablen Bonus, den das Präsidium um bis zu 20% des Betrags der Zielerreichung abändern kann, (iii) einer aktienbasierten Vergütung und (iv) einer Versorgungszusage. Für feste Vergütung und Bonus wird ein so genanntes Jahreszieleinkommen festgelegt, das sich zu 50% aus festen und zu 50% aus variablen Bezügen zusammensetzt. Das Zieleinkommen wird regelmäßig in Abständen von zwei bis drei Jahren auf der Grundlage einer Analyse der Einkommen überprüft, die vergleichbare internationale Unternehmen an Mitglieder ihrer Geschäftsleitung zahlen. Die letzte Überprüfung fand zum 1. April 2003 statt.

Im Einzelnen setzt sich die Vorstandsvergütung aus folgenden wesentlichen Komponenten zusammen:

- Die feste Vergütung wird monatlich als Gehalt ausgezahlt.
- Der variable Bonus ist von dem Erreichen bestimmter, zu Beginn des Geschäftsjahrs durch das Aufsichtsratspräsidium fixierter GWB- und gegebenenfalls weiterer finanzieller Ziele abhängig (zu Einzelheiten über den GWB als Erfolgsmessgröße siehe im Lagebericht des Konzernabschlusses Seite 106 ff.). Die Hälfte des Bonus wird als Jahresbonus gezahlt, der sich nach der Erfüllung des für das Geschäftsjahr fixierten GWB-Ziels für das Gesamtunternehmen bemisst. Die andere Hälfte ist ein Long-Term (LT)-Bonus, dessen Höhe von der durchschnittlichen Erfüllung der GWB-Ziele in einem Dreijahreszeitraum abhängig ist. Der Jahres- und der LT-Bonus sind auf maximal 250% des für die variable Vergütung geltenden Grundbetrags

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begrenzt. Die Hälfte des LT-Bonus wird in bar ausgezahlt; für die andere Hälfte wird eine Zusage über Aktien der Siemens AG ausgesprochen (stock awards), die vier Jahre nach der Zusage erfüllt wird.
Für Mitglieder des Vorstands, die nicht dem Zentralvorstand angehören, gelten für die Festlegung des Bonus dieselben Grundsätze. Allerdings können ihre Ziele zusätzlich an die finanzielle Performance des von ihnen geführten Bereichs geknüpft sein. Außerdem wird der LT-Bonus in voller Höhe bar vergütet.

- Die dritte Komponente der Vorstandsvergütung besteht aus einer vom Präsidium des Aufsichtsrats für das Geschäftsjahr 2005 festgelegten aktienbasierten Vergütung, die aus Aktienoptionen, die zu den Bedingungen des von der Hauptversammlung der Siemens AG am 22. Februar 2001 verabschiedeten Siemens-Aktienoptionsplans 2001 (für nähere Informationen zu den Siemens-Aktienoptionsplänen siehe Anhang im Konzernabschluss Seite 209 ff.) ausgegeben werden, und aus der Zusage von Aktien der Siemens AG (stock awards) zusammengesetzt ist. Für die an den Vorstand ausgegebenen Aktienoptionen kann der Aufsichtsrat bei außerordentlichen, nicht vorgesehenen Entwicklungen des Kurses der Siemens-Aktie eine Begrenzung der Optionsausübung beschließen („cap").
- Im Rahmen der Beitragsorientierten Siemens Altersversorgung (BSAV) erhalten Mitglieder des Vorstands Beiträge, deren Höhe jährlich auf Basis eines vom Präsidium des Aufsichtsrats festgelegten %-Satzes vom Jahreszieleinkommen bestimmt wird. Ein Teil dieser Beiträge entfällt dabei auf die Ausfinanzierung eines bis zum Übergang auf die BSAV erworbenen Pensionsanspruchs. Außerdem können Sonderbeiträge aufgrund von Einzelentscheidungen gewährt werden.

Für den Fall der vorzeitigen Beendigung des Dienstverhältnisses enthalten die Vorstandsverträge keine ausdrückliche Abfindungszusage. Eine Abfindung kann sich aber aus einer individuell getroffenen Aufhebungsvereinbarung ergeben.

Die Vorstandsmitglieder, die vor dem 1. Oktober 2002 erstmals in den Vorstand bestellt wurden, haben nach ihrem Ausscheiden aus dem Vorstand Anspruch auf Übergangsbezüge für 12 Monate. Die Übergangsbezüge entsprechen grundsätzlich dem fixen Gehalt im Jahr des Ausscheidens und dem Durchschnitt der vergüteten variablen Boni der letzten drei Geschäftsjahre vor dem Ausscheiden bzw. in Einzelfällen der Höhe des Jahreszieleinkommens.

Im Falle eines „Change of control" – d. h., wenn ein oder mehrere gemeinsam handelnde Aktionäre die Stimmrechtsmehrheit an der Siemens AG erwerben und einen beherrschenden Einfluss ausüben, die Siemens AG durch Abschluss eines Unternehmensvertrags i.S.d. § 291 AktG zu einem abhängigen Unternehmen wird oder bei Verschmelzung der Siemens AG auf ein anderes Unternehmen – hat jedes einzelne Mitglied des Vorstands das Recht zur Kündigung des Anstellungsvertrags, wenn sich durch den „Change of control" eine wesentliche Änderung seiner Stellung ergibt (z. B. durch Änderung der Strategie des Unternehmens oder durch Änderung des Tätigkeitsbereichs des Vorstandsmitglieds). Bei Ausübung des Rechts zur Kündigung hat das Mitglied des Vorstands einen Abfindungsanspruch in Höhe des zum Zeitpunkt der Vertragsbeendigung gültigen Jahreszieleinkommens für die restliche Vertragslaufzeit, aber mindestens für eine Dauer von drei Jahren. Zusätzlich werden Sachbezüge durch die Zahlung eines Betrags in Höhe von 5% der Abfindungssumme abgegolten. Kein Abfindungsanspruch besteht, wenn das Vorstandsmitglied im Zusammenhang mit dem „Change of control" Leistungen von Dritten erhält. Ein Recht zur Kündigung besteht nicht, wenn der „Change of control" innerhalb von 12 Monaten vor Übertritt des Vorstandsmitglieds in den Ruhestand eintritt.

In der Sitzung des Aufsichtsratspräsidiums am 9. November 2005 wurden nach Prüfung der Erreichung der zu Beginn des Geschäftsjahrs festgelegten Ziele die Höhe der Boni und die Zahl der auszugebenden Aktienzusagen und Aktienoptionen festgesetzt.

Für das Geschäftsjahr 2005 betrugen die Barvergütung 20,9 (i.V. 26,7) Mio. EUR und die Gesamtvergütung 28,0 (i.V. 33,4) Mio. EUR; dies entspricht einem Rückgang von 21,7% bzw. 16,2%.

Für die einzelnen Mitglieder des Vorstands wurde folgende Vergütung für das Geschäftsjahr 2005 festgesetzt:

(Angaben in EUR)[1]		Barvergütung	Geldwert aktienbasierte Vergütung	Gesamt
Dr. Heinrich v. Pierer[2]	2005	958.389	244.414	1.202.803
	2004	3.560.053	1.077.993	4.638.046
Dr. Klaus Kleinfeld[2]	2005	2.323.193	946.911	3.270.104
	2004	2.679.904	641.286	3.321.190
Johannes Feldmayer	2005	1.821.301	716.666	2.537.967
	2004	2.339.465	719.638	3.059.103
Dr. Thomas Ganswindt[3]	2005	1.764.948	641.515	2.406.463
	2004	1.634.267	149.990	1.784.257
Prof. Dr. Edward G. Krubasik	2005	1.832.685	716.666	2.549.351
	2004	2.278.056	719.638	2.997.694
Rudi Lamprecht[3]	2005	1.730.431	625.190	2.355.621
	2004	1.741.472	149.990	1.891.462
Heinz-Joachim Neubürger	2005	1.822.925	716.666	2.539.591
	2004	2.260.585	719.638	2.980.223
Dr. Jürgen Radomski	2005	1.818.389	716.666	2.535.055
	2004	2.252.307	719.638	2.971.945
Dr. Uriel J. Sharef	2005	1.831.833	716.666	2.548.499
	2004	2.264.607	719.638	2.984.245
Prof. Dr. Klaus Wucherer	2005	1.822.218	716.666	2.538.884
	2004	2.261.306	719.638	2.980.944
Prof. Dr. Erich R. Reinhardt[4]	2005	1.756.836	200.034	1.956.870
	2004	1.823.818	149.990	1.973.808
Prof. Dr. Claus Weyrich[4]	2005	1.381.990	150.007	1.531.997
	2004	1.649.402	129.989	1.779.391
Summe	**2005**	**20.865.138**	**7.108.067**	**27.973.205**
	2004	26.745.236	6.617.066	33.362.302

1) Die in dieser Tabelle angegebenen Werte für die aktienbasierte Vergütung beziehen sich auf Aktienoptionen und -zusagen, die im November 2005 bzw. 2004 für das Geschäftsjahr 2005 bzw. 2004 ausgeteilt wurden.
2) Herr Dr. Heinrich v. Pierer wechselte mit Wirkung zum 27. Januar 2005 in den Aufsichtsrat der Siemens AG. Herr Dr. Klaus Kleinfeld wurde mit Wirkung zum 27. Januar 2005 als Nachfolger von Herrn Dr. Heinrich v. Pierer zum Vorsitzenden des Vorstands der Siemens AG gewählt.
3) Herr Dr. Thomas Ganswindt und Herr Rudi Lamprecht wurden mit Wirkung zum 1. Oktober 2004 zu ordentlichen Mitgliedern des Vorstands der Siemens AG ernannt und in den Zentralvorstand gewählt.
4) Stellvertretende Mitglieder des Vorstands.

Die folgende Tabelle erläutert die Details der Barvergütung.

(Angaben in EUR)		Barvergütung Gehalt	Jahresbonus	LT-Bonus Baranteil	Sonstiges[1]	Gesamt
Dr. Heinrich v. Pierer[2]	2005	405.000	299.257	244.445	9.687	958.389
	2004	1.215.000	1.581.250	738.078	25.725	3.560.053
Dr. Klaus Kleinfeld[2]	2005	950.040	768.794	571.883	32.476	2.323.193
	2004	762.627	883.116	510.387	523.774	2.679.904
Johannes Feldmayer	2005	755.040	571.280	466.627	28.354	1.821.301
	2004	755.040	1.006.200	469.639	108.586	2.339.465
Dr. Thomas Ganswindt[3]	2005	755.040	571.280	391.452	47.176	1.764.948
	2004	500.040	602.617	480.380	51.224	1.634.261
Prof. Dr. Edward G. Krubasik	2005	755.040	571.280	466.627	39.738	1.832.685
	2004	755.040	1.006.200	469.639	47.177	2.278.056
Rudi Lamprecht[3]	2005	755.040	571.280	375.136	28.975	1.730.431
	2004	550.020	575.240	589.982	26.230	1.741.472
Heinz-Joachim Neubürger	2005	755.040	571.280	466.627	29.978	1.822.925
	2004	755.040	1.006.200	469.639	29.706	2.260.585
Dr. Jürgen Radomski	2005	755.040	571.280	466.627	25.442	1.818.389
	2004	755.040	1.006.200	469.639	21.428	2.252.307
Dr. Uriel J. Sharef	2005	755.040	571.280	466.627	38.886	1.831.833
	2004	755.040	1.006.200	469.639	33.728	2.264.607
Prof. Dr. Klaus Wucherer	2005	755.040	571.280	466.627	29.271	1.822.218
	2004	755.040	1.006.200	469.639	30.427	2.261.306
Prof. Dr. Erich R. Reinhardt[4]	2005	525.030	506.841	692.671	32.294	1.756.836
	2004	500.040	607.153	686.692	29.933	1.823.818
Prof. Dr. Claus Weyrich[4]	2005	450.000	344.205	562.285	25.500	1.381.990
	2004	450.000	606.250	565.922	27.230	1.649.402
Summe	**2005**	**8.370.390**	**6.489.337**	**5.637.634**	**367.777**	**20.865.138**
	2004	8.507.967	10.892.826	6.389.275	955.168	26.745.236

[1] Unter den Sonstigen Vergütungen sind geldwerte Vorteile aus dem Zur-Verfügung-Stellen von Dienstwagen in Höhe von 282.112 (i.V. 275.832) EUR, Zuschüsse zu Versicherungen von 85.665 (i.V. 85.331) EUR sowie Wohnungs- und Umzugskosten von 0,00 (i.V. 594.005) EUR enthalten.

[2] Herr Dr. Heinrich v. Pierer wechselte zum 27. Januar 2005 in den Aufsichtsrat der Siemens AG. Herr Dr. Klaus Kleinfeld wurde mit Wirkung zum 27. Januar 2005 als Nachfolger von Herrn Dr. Heinrich v. Pierer zum Vorsitzenden des Vorstands der Siemens AG gewählt.

[3] Herr Dr. Thomas Ganswindt und Herr Rudi Lamprecht wurden mit Wirkung zum 1. Oktober 2004 zu ordentlichen Mitgliedern des Vorstands der Siemens AG ernannt und in den Zentralvorstand gewählt.

[4] Stellvertretende Mitglieder des Vorstands.

Die Stückzahl wie auch die Werte der aktienbasierten Einkommenskomponenten ergeben sich aus der nachfolgenden Tabelle. Der Geldwert der Aktienoptionen wurde dabei nach dem Black-Scholes-Optionspreismodell bestimmt. Aufgrund der Festlegung eines „cap" für die an den Vorstand ausgegebenen Aktienoptionen richtet sich ihre bilanzielle Bewertung nach dem Inneren Wert; dieser betrug am Zuteilungstag null. Ohne „cap" würde sich ein Wert von 4,06 (i.V. 4,54) EUR je Stück ergeben, der dieser Darstellung zugrunde gelegt wurde. Die Aktienzusagen wurden mit dem Kurs der Siemens-Aktie am Tag der Zusage abzüglich des Gegenwartswerts der während der Halteperiode erwarteten Dividenden, die dem Berechtigten nicht zustehen, angesetzt. Dieser Wert beträgt 57,28 (i.V. 55,63) EUR.

An den Vorstand wurden für das Geschäftsjahr 2005 insgesamt 101.731 (i.V. 94.769) Stück Aktienzusagen und 315.495 (i.V. 296.270) Stück Aktienoptionen ausgegeben. Das sind 8,8 (i.V. 7,8)% bzw. 10,4 (i.V. 10,1)% der insgesamt für das Geschäftsjahr 2005 ausgegebenen Zusagen bzw. Optionen.

Im Einzelnen ergeben sich folgende Werte:

(Angaben in Stück bzw. EUR)		Aktienbasierte Vergütung						
		Stück			Geldwert			
		Aktienzusagen aus LT-Bonus[1]	Sonstige Aktienzusagen[1]	Aktienoptionen[2]	Aktienzusagen aus LT-Bonus[1]	Sonstige Aktienzusagen[1]	Aktienoptionen[2]	Gesamt
Dr. Heinrich v. Pierer[3]	2005	4.267	–	–	244.414	–	–	244.414
	2004	13.266	3.056	37.445	737.988	170.005	170.000	1.077.993
Dr. Klaus Kleinfeld[3]	2005	9.984	3.470	43.415	571.884	198.762	176.265	946.911
	2004	6.674	2.427	29.735	371.275	135.014	134.997	641.286
Johannes Feldmayer	2005	8.146	2.314	28.945	466.603	132.546	117.517	716.666
	2004	8.442	2.247	27.535	469.628	125.001	125.009	719.638
Dr. Thomas Ganswindt[4]	2005	6.834	2.314	28.945	391.452	132.546	117.517	641.515
	2004	–	1.348	16.520	–	74.989	75.001	149.990
Prof. Dr. Edward G. Krubasik	2005	8.146	2.314	28.945	466.603	132.546	117.517	716.666
	2004	8.442	2.247	27.535	469.628	125.001	125.009	719.638
Rudi Lamprecht[4]	2005	6.549	2.314	28.945	375.127	132.546	117.517	625.190
	2004	–	1.348	16.520	–	74.989	75.001	149.990
Heinz-Joachim Neubürger	2005	8.146	2.314	28.945	466.603	132.546	117.517	716.666
	2004	8.442	2.247	27.535	469.628	125.001	125.009	719.638
Dr. Jürgen Radomski	2005	8.146	2.314	28.945	466.603	132.546	117.517	716.666
	2004	8.442	2.247	27.535	469.628	125.001	125.009	719.638
Dr. Uriel J. Sharef	2005	8.146	2.314	28.945	466.603	132.546	117.517	716.666
	2004	8.442	2.247	27.535	469.628	125.001	125.009	719.638
Prof. Dr. Klaus Wucherer	2005	8.146	2.314	28.945	466.603	132.546	117.517	716.666
	2004	8.442	2.247	27.535	469.628	125.001	125.009	719.638
Prof. Dr. Erich R. Reinhardt[5]	2005	–	1.851	23.155	–	106.025	94.009	200.034
	2004	–	1.348	16.520	–	74.989	75.001	149.990
Prof. Dr. Claus Weyrich[5]	2005	–	1.388	17.365	–	79.505	70.502	150.007
	2004	–	1.168	14.320	–	64.976	65.013	129.989
Summe	2005	76.510	25.221	315.495	4.382.495	1.444.660	1.280.912	7.108.067
	2004	70.592	24.177	296.270	3.927.031	1.344.968	1.345.067	6.617.066

[1] Die Aktienzusagen werden nach einer Halteperiode von vier Jahren am 11. November 2009 (i.V. gegebene am 12. November 2008) erfüllt. Aufgrund der Aktienzusage erhält der Berechtigte eine entsprechende Stückzahl von Siemens-Aktien ohne Zuzahlung.

[2] Die Aktienoptionen sind nach einer Halteperiode von zwei Jahren in der Zeit vom 19. November 2007 bis 18. November 2010 (i.V. ausgegebene vom 20. November 2006 bis 19. November 2009) zum Preis von 74,59 (i.V. 72,54) EUR zu den im Aktienoptionsplan 2001 fixierten Optionsbedingungen (zu Einzelheiten siehe Anhang zum Konzernabschluss Seite 210 ff.) ausübbar.

[3] Herr Dr. Heinrich v. Pierer wechselte zum 27. Januar 2005 in den Aufsichtsrat der Siemens AG. Herr Dr. Klaus Kleinfeld wurde mit Wirkung zum 27. Januar 2005 als Nachfolger von Herrn Dr. Heinrich v. Pierer zum Vorsitzenden des Vorstands der Siemens AG gewählt.

[4] Herr Dr. Thomas Ganswindt und Herr Rudi Lamprecht wurden mit Wirkung zum 1. Oktober 2004 zu ordentlichen Mitgliedern des Vorstands der Siemens AG ernannt und in den Zentralvorstand gewählt.

[5] Stellvertretende Mitglieder des Vorstands.

Versorgungszusagen. Im Rahmen der Neuordnung des Pensionssystems der Siemens AG durch die Einführung einer Beitragsorientierten Altersversorgung (BSAV) wurde auch für den Vorstand mit Wirkung ab 1. Oktober 2004 das System der leistungsorientierten Pensionszusagen abgelöst und durch ein auf Beiträgen beruhendes Versorgungssystem ersetzt. Die bis zum 30. September 2004 erworbenen Pensionsansprüche bleiben bestehen. Die Höhe der Beiträge für die BSAV werden vom Präsidium des Aufsichtsrats jährlich neu festgelegt.

Für das Geschäftsjahr 2005 wurden den Vorständen auf der Grundlage eines am 9. November 2005 vom Aufsichtsratspräsidium gefassten Beschlusses im Rahmen der BSAV erstmals Beiträge in Höhe von 3,4 Mio. EUR gewährt. Davon entfielen 0,8 Mio. EUR auf die Ausfinanzierung der persönlichen Altzusagen, der Restbetrag von 2,6 Mio. EUR wurde den individuellen Versorgungskonten gutgeschrieben.

Der Anwartschaftsbarwert („Projected Benefit Obligation" – PBO) sämtlicher Pensionszusagen gegenüber Mitgliedern des Vorstands betrug zum 30. September 2005 52,9 (i.V. 56,3) Mio. EUR, die in den Anhangsangaben, Ziffer 21, enthalten sind.

Frühere Vorstandsmitglieder und deren Hinterbliebene erhielten im Geschäftsjahr 2005 Ruhegehälter, Übergangsbezüge und vergleichbare Zuwendungen in Höhe von 15,6 (i.V. 13,5) Mio. EUR.

Der Anwartschaftsbarwert („Projected Benefit Obligation" – PBO) sämtlicher Pensionszusagen gegenüber früheren Vorstandsmitgliedern und deren Hinterbliebenen betrug zum 30. September 2005 128,9 (i.V. 111,0) Mio. EUR, die in den Anhangsangaben, Ziffer 21, enthalten sind.

Sonstiges. Mitglieder des Vorstands erhalten vom Unternehmen keine Kredite.

2. Vergütung des Aufsichtsrats

Die Vergütung des Aufsichtsrats ist auf Vorschlag von Vorstand und Aufsichtsrat durch die Hauptversammlung festgelegt worden. Sie ist in der Satzung geregelt.

Die Aufsichtsratsvergütung orientiert sich an der Größe des Unternehmens, an den Aufgaben und der Verantwortung der Aufsichtsratsmitglieder sowie an der wirtschaftlichen Lage und Performance der Gesellschaft. Die Vergütung enthält neben einer festen Vergütung eine am kurzfristigen sowie am langfristigen Erfolg des Unternehmens orientierte Vergütung. Vorsitz, stellvertretender Vorsitz sowie Vorsitz und Mitgliedschaft im Prüfungsausschuss werden zusätzlich vergütet.

Die gegenwärtig geltenden Vergütungsregeln für den Aufsichtsrat wurden von der Hauptversammlung am 27. Januar 2005 verabschiedet; sie sind in § 17 der Satzung der Siemens AG enthalten.

Danach enthält die Vergütung für das Geschäftsjahr 2005 drei Komponenten:

- einen festen Bestandteil,
- einen vom Ergebnis je Aktie abhängigen kurzfristigen Bestandteil und
- einen vom Ergebnis je Aktie abhängigen langfristigen Bestandteil.

Nach diesen Regeln erhalten Mitglieder des Aufsichtsrats jährlich eine feste Vergütung in Höhe von 50.000 EUR und eine kurzfristige variable Vergütung in Höhe von 150 EUR je 0,01 EUR des im Konzernabschluss ausgewiesenen Ergebnisses je Aktie, das einen Mindestbetrag von 1 EUR übersteigt; der Mindestbetrag erhöht sich jährlich, erstmalig für das am 1. Oktober 2005 begonnene Geschäftsjahr, um 10%. Zusätzlich wird eine langfristige, nach Ablauf der jeweiligen fünfjährigen Wahlperiode des Aufsichtsrats zahlbare Vergütung in Höhe von 50.000 EUR gewährt. Die langfristige Vergütung kommt nur zur Auszahlung, wenn das Ergebnis je Aktie am Ende dieser Wahlperiode im Vergleich zu deren Beginn um mehr als 50% gestiegen ist. Das der Ermittlung der Aufsichtsratsvergütung zugrunde liegende Ergebnis je Aktie ist um wesentliche außerordentliche Ergebnisposten zu bereinigen. Für das Geschäftsjahr 2005 wurde die Aufsichtsratsvergütung auf Basis eines Ergebnisses je Aktie von 2,52 EUR ermittelt. Der Vorsitzende des Aufsichtsrats erhält das Doppelte, die beiden Stellvertreter jeweils das Eineinhalbfache der festen Vergütung und der kurzfristigen variablen Vergütung eines einfachen Mitglieds. Die Vorsitzenden der Ausschüsse (ohne Präsidial-, Vermittlungs- und Beteiligungsausschuss) erhalten jeweils zusätzlich 100%, die übrigen Mitglieder dieser Ausschüsse zusätzlich 50% der festen Vergütung und der kurzfristigen variablen Vergütung. Mitgliedern des Aufsichtsrats werden sämtliche Auslagen, die im Zusammenhang mit der Ausübung des Mandats entstehen, sowie die auf die Bezüge entfallende Umsatzsteuer ersetzt. Dem Vorsitzenden des Aufsichtsrats werden ein Dienstwagen und ein Büro mit Sekretariat zur Verfügung gestellt.

	2005				2004			
(Angaben in EUR)	Feste Vergütung	Kurzfristige variable Vergütung	Langfristige variable Vergütung	Gesamt	Feste Vergütung[1]	Variable Vergütung[1]	Geldwert aktienbasierte Vergütung[1]	Gesamt
Dr. Karl-Hermann Baumann[2,3]	50.000	22.800	–	72.800	18.000	220.500	6.810	245.310
Dr. Heinrich v. Pierer[2,3]	93.750	42.750	–	136.500	–	–	–	–
Ralf Heckmann[3]	100.000	45.600	–	145.600	12.000	147.000	6.810	165.810
Dr. Josef Ackermann[3]	83.333	38.000	–	121.333	12.000	147.000	6.810	165.810
Lothar Adler	50.000	22.800	–	72.800	6.000	73.500	6.810	86.310
Gerhard Bieletzki	50.000	22.800	–	72.800	6.000	73.500	6.810	86.310
John David Coombe	50.000	22.800	–	72.800	6.000	73.500	6.810	86.310
Hildegard Cornudet[4]	50.000	22.800	–	72.800	3.000	36.750	3.405	43.155
Dr. Gerhard Cromme[3]	87.500	39.900	–	127.400	6.000	73.500	6.810	86.310
Rolf Dittmar[4]	–	–	–	–	3.000	36.750	3.405	43.155
Bertin Eichler[5]	–	–	–	–	4.500	55.125	5.108	64.733
Birgit Grube	50.000	22.800	–	72.800	6.000	73.500	6.810	86.310
Heinz Hawreliuk[3]	75.000	34.200	–	109.200	9.000	110.250	6.810	126.060
Berthold Huber[5]	50.000	22.800	–	72.800	1.500	18.375	1.703	21.578
Prof. Dr. Walter Kröll	50.000	22.800	–	72.800	6.000	73.500	6.810	86.310
Wolfgang Müller	50.000	22.800	–	72.800	6.000	73.500	6.810	86.310
Georg Nassauer	50.000	22.800	–	72.800	6.000	73.500	6.810	86.310
Dr. Albrecht Schmidt	50.000	22.800	–	72.800	6.000	73.500	6.810	86.310
Dr. Henning Schulte-Noelle[3]	75.000	34.200	–	109.200	9.000	110.250	6.810	126.060
Peter von Siemens	50.000	22.800	–	72.800	6.000	73.500	6.810	86.310
Jerry I. Speyer	50.000	22.800	–	72.800	6.000	73.500	6.810	86.310
Lord Iain Vallance of Tummel	50.000	22.800	–	72.800	6.000	73.500	6.810	86.310
Klaus Wigand	50.000	22.800	–	72.800	6.000	73.500	6.810	86.310
Summe	**1.264.583**	**576.650**	–	**1.841.233**	150.000	1.837.500	136.201	2.123.701

[1] Im Geschäftsjahr 2004 bestand die Aufsichtsratsvergütung aus einem fixen Bestandteil, einem von der jährlichen Dividende abhängigen variablen Bestandteil und einem langfristig an der Entwicklung des Aktienkurses orientierten Bestandteil in Form von 1.500 Wertsteigerungsrechten pro Jahr. Die Wertsteigerungsrechte hatten zum Zeitpunkt der Ausgabe nach dem Black-Scholes-Optionspreismodell einen Wert von 4,54 EUR je Stück.

[2] Herr Dr. Heinrich v. Pierer, vorher Vorstandsvorsitzender der Siemens AG, wurde mit Wirkung zum 27. Januar 2005 Nachfolger des Aufsichtsratsvorsitzenden Herrn Dr. Karl-Hermann Baumann.

[3] Herr Dr. Heinrich v. Pierer als Vorsitzender des Aufsichtsrats und Mitglied des Prüfungsausschusses, Herr Dr. Josef Ackermann als stellv. Vorsitzender des Aufsichtsrats, Herr Dr. Gerhard Cromme als Vorsitzender des Prüfungsausschusses, Herr Ralf Heckmann als stellv. Vorsitzender des Aufsichtsrats und Mitglied des Prüfungsausschusses, Herr Heinz Hawreliuk und Herr Dr. Henning Schulte-Noelle als Mitglieder des Prüfungsausschusses erhalten eine höhere feste und variable Vergütung. Herr Dr. Karl-Hermann Baumann erhält anteilig für den Zeitraum seiner Aufsichtsratstätigkeit ebenfalls eine entsprechend erhöhte Vergütung als ehemaliger Vorsitzender des Aufsichtsrats und des Prüfungsausschusses. Das Gleiche gilt für Herrn Dr. Josef Ackermann als ehemaligem Mitglied des Prüfungsausschusses.

[4] Frau Hildegard Cornudet, vorher Ersatzmitglied im Aufsichtsrat der Siemens AG, wurde mit Wirkung zum 1. April 2004 Nachfolgerin von Herrn Rolf Dittmar im Aufsichtsrat der Siemens AG.

[5] Herr Berthold Huber wurde mit Wirkung zum 1. Juli 2004 als Nachfolger von Herrn Bertin Eichler in den Aufsichtsrat der Siemens AG gerichtlich bestellt.

Mit Herrn Peter von Siemens besteht ein nach der Hauptversammlung 2003 zu unveränderten Bedingungen verlängerter Repräsentationsvertrag, mit dem ihm als Mitglied der Gründerfamilie für die Repräsentanz des Unternehmens bei offiziellen Veranstaltungen im In- und Ausland sowie für die Vertretung in Verbänden eine Auslagenerstattung und die Überlassung eines Firmenwagens sowie die Bereitstellung eines Büros mit Sekretariat zugesagt wurden.

Mitglieder des Aufsichtsrats erhalten vom Unternehmen keine Kredite.

3. Aktienbesitz des Vorstands und des Aufsichtsrats

Mitglieder des Vorstands hielten am 15. Oktober 2005 insgesamt 1.104.459 (i.V. 1.000.014) Stück Siemens-Aktien und Bezugsrechte auf Siemens-Aktien, dies entspricht 0,124 (i.V. 0,112)% des Grundkapitals der Siemens AG. Mitglieder des Aufsichtsrats waren zum selben Tag im Besitz von 185.544 (i.V. 18.824) Stück Siemens-Aktien und Bezugsrechten, dies entspricht 0,021 (i.V. 0,002)% des Grundkapitals der Siemens AG. In diesen Werten sind 10.786.521 (i.V. 16.364.977) Stück Aktien bzw. 1,2 (i.V. 1,8)% des Grundkapitals, die von der von Siemens-Vermögensverwaltungs GmbH (vSV) gehalten werden, sowie die 38.102.921 (i.V. 38.685.250) Stück Aktien bzw. rund 4,3 (i.V 4,3)%, für welche die vSV Stimmrechtsvollmacht besitzt, nicht enthalten. Stimmrechtsbevollmächtigter für diese Aktien ist Herr Peter von Siemens, der Repräsentant der Gründerfamilie.

4. Sonstiges

Die Mitglieder von Organen der Siemens AG sowie alle Organe der Verbundenen Unternehmen im In- und Ausland werden von der Siemens AG bzw. dem Verbundenen Unternehmen von Ansprüchen Dritter im gesetzlich zulässigen Rahmen freigestellt. Zu diesem Zweck unterhält die Gesellschaft eine Vermögensschaden-Haftpflicht-Gruppenversicherung für Organmitglieder und Mitarbeiter des Siemens-Konzerns. Sie wird jährlich abgeschlossen bzw. verlängert. Die Versicherung deckt das persönliche Haftungsrisiko für den Fall ab, dass der Personenkreis bei Ausübung seiner Tätigkeit für Vermögensschäden in Anspruch genommen wird. In einem solchen Fall kann ab dem 1. Oktober 2005 das Unternehmen Mitglieder des Vorstands bis zu einer Höhe von 20% des Festgehalts in Anspruch nehmen. Ebenso ist eine Inanspruchnahme von Mitgliedern des Aufsichtsrats bis zu einer Höhe von 20% der festen Vergütung mit jedem Mitglied individuell vereinbart (Selbstbehalt im Sinne des Deutschen Corporate Governance Kodex, Ziffer 3.8 Abs. 2).

Source: SIEMENS AG Annual Report 2005, p. 78-87

VITA

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