# Culture and Law in Corporate Governance

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# Abstract

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Keywords: corporate governance, culture, corporate law, social institutions, social networks, board of directors, stakeholders, earnings management, dividend payouts, executive compensation

JEL Classifications: D85, G02, G3, G34, G35, G38, K22, L2, L21, L26, Z1, Z13



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**Culture and Law in Corporate Governance**

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Abstract

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[Thankyous].

## I. INTRODUCTION

Understanding the role of culture in corporate governance has been a subject of growing importance since the latter concept emerged in the late 1980s and even more so since the advent of research on comparative corporate governance during the 1990s.[1] In the beginning, references to culture - when they were made - tended to be intuitive and impressionistic. Even those references, however, evinced a newly-found awareness of the idea that corporate governance is a complex system, whose structure and functioning depend on more than law and economics. Today, no institutional analysis of corporate governance systems would be complete without considering the potential role of the cultural environment in which such systems are embedded. This sea change is largely due to the adoption of dimensional models of culture - an analytical framework developed primarily in social psychology. This chapter provides an overview of the different accounts on how culture interacts with the law (especially corporate law) to shape corporate governance and on how this may help explain diversity and persistence in corporate governance.

To motivate the discussion, consider the People's Republic of China. Better yet, consider China together with its Hong Kong S.A.R., and then Taiwan, South Korea, Japan, and Vietnam for good measure. These countries, on whose significance in today's world economy one need not elaborate, share a deep-seated Confucian tradition which goes back up to twenty-five hundred years ago. With inevitable differences and to various degrees, Confucian values and beliefs - namely, culture - permeate all aspects of life in this region of the world. Notwithstanding past attempts to suppress Confucian traditions in China, Confucianism is on the rise and is taken

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[1] *See* Edward B. Rock, *America's Shifting Fascination with Comparative Corporate Governance*, 74 WASH. U. L.Q. 367 (1996); Donald C. Clarke, *"Nothing but Wind"? The Past and Future of Comparative Corporate Governance*, 59 AM. J. COMP. L. 75 (2011).

pride of.[2] Numerous questions thus may warrant analysis. Firstly, are Confucian values also liable to affect the working of corporate governance?[3] Does the all-important concept of *guanxi* ("relationship" is an imprecise translation) entail implications similar to those that director networks have in U.S. and U.K. firms?[4] What to make of the fact that both Korea and China have introduced U.S.-inspired "fiduciary duties" of board members into their corporate laws?[5] Should one expect legally-mandated independent directors in these countries to resemble their American counterparts, if not now then after some period of adjustment?[6]

The list of questions could go on. In addressing such issues of culture, law, and corporate governance, two kinds of responses are helpful only to a degree. On the one hand, one may point out that "even Confucian managers respond to incentives", as Bernard Black has noted with regard to Korea.[7] On the other hand, a common admonition emphasizes "the need to adapt implementation to varying legal economic and cultural circumstances", as the OECD does with regard to its Principles

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[2] *See,* generally, RUIPING FAN, ED., THE RENAISSANCE OF CONFUCIANISM IN CONTEMPORARY CHINA (2011); DANIEL A. BELL, CHINA'S NEW CONFUCIANISM: POLITICS AND EVERYDAY LIFE IN A CHANGING SOCIETY (2008).

[3] For recent brief discussions with good references *see* Kun L.A. Lau & Angus Young, *Why China Shall Not Completely Transit from a Relation Based to a Rule Based Governance Regime: A Chinese Perspective*, 21 CORP. GOVERNANCE: INT'L REV. 577 (2013); Lilian Miles & Say Hak Goo, *Corporate Governance in Asian Countries: Has Confucianism Anything to Offer?*, 118 BUS. & SOC'Y REV. 23 (2013).

[4] *See*, e.g., Chao C. Chen, Xiao-Ping Chen & Shengsheng Huang, *Chinese* Guanxi*: An Integrative Review and New Directions for Future Research*, 9 MGMT. & ORG. REV. 167 (2013). For further discussion *see* below.

[5] *See* Rebecca Lee, *Fiduciary Duty Without Equity: "Fiduciary Duties" of Directors Under the Revised Company Law of the PRC*, 47 VA. J. INT'L L. 897 (2007); Hwa-Jin Kim, *Living With the IMF: A New Approach to Corporate Governance and Regulation of Financial Institutions in Korea*, 17 BERKELEY J. INT'L L. 61 (1999); *see* also Hideki Kanda & Curtis J. Milhaupt, *Re-examining Legal Transplants: The Director's Fiduciary Duty in Japanese Corporate Law*, 51 AM. J. COMP. L. 887 (2003).

[6] *See* Donald C. Clarke, *The Independent Director in Chinese Corporate Governance*, 31 DEL. J. CORP. L. 125 (2006).

[7] Bernard S. Black, *Corporate Governance in Korea at the Millennium: Enhancing International Competitiveness*, 26 IOWA J. CORP. L. 537, 545 (2001).

of Corporate Governance.[8] Both points are well taken, but they do not inform policy- and law-makers *how* to take culture into account short of ignoring it or just paying it some lip service. What is needed for a meaningful consideration of cultural factors in corporate governance analysis is a tractable framework for comparing cultures. Such an analytical framework could suggest, for instance, whether board members' affiliation with a social network of school alumni may entail similar implications for deeming them independent directors in different countries.[9] Without such a framework, cultural analysis of corporate law and governance runs the risk of being little more than mere hand waving or telling of "just so stories".[10]

## II. CORPORATE GOVERNANCE: A PRÉCIS

Before proceeding to the discussion of culture, a thumbnail sketch is in place on what corporate governance is and why we care about it.[11] Defined as the institutional framework that regulates the division and exercise of power in the corporation,[12] corporate governance addresses the multiple relations among corporate stakeholders, including shareholders (with controlling shareholders in particular),

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[8] ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT, OECD PRINCIPLES OF CORPORATE GOVERNANCE 13 (2004).

[9] Compare Jordan Siegel, *Contingent Political Capital and International Alliances: Evidence from South Korea*, 52 ADMIN. SC. Q. 621 (2007); Kelly Shue, *Executive Networks and Firm Policies: Evidence from the Random Assignment of MBA Peers*, 26 REV. FIN. STUD. 1401 (2013).

[10] Amir N. Licht, *Social Norms and the Law: Why Peoples Obey the Law*, 4 REV. L. & ECON. 715 (2008); compare RUDYARD KIPLING, JUST SO STORIES (1902).

[11] [cross-references to other chapters]

[12] Amir N. Licht, *Corporate Governance*, in HANDBOOK OF FINANCIAL GLOBALIZATION 369, 369 (Gerard Caprio, ed., 2013). For similarly spirited definitions *see* Jean Tirole, *Corporate Governance*, 69 ECONOMETRICA 1, 4 (2001) ("[I] define corporate governance as the design of institutions that induce or force management to internalize the welfare of stakeholders."); Luigi Zingales, *Corporate Governance*, in THE NEW PALGRAVE DICTIONARY OF ECONOMICS (Steven N. Durlauf & Lawrence E. Blume, eds. Online 2d Ed., 2008) ("I define corporate governance as the complex set of constraints that shape the ex post bargaining over the quasi-rents generated by a firm."); Ruth V. Aguilera & Gregory Jackson, *Comparative and International Corporate Governance*, 4 ACAD. MGMT. ANN. 485 (2010) ("Corporate governance may be defined broadly as the study of power and influence over decision making within the corporation.").

managers, employees, creditors, and others. Such relations often begin voluntarily using a contractual framework. Hence the widely popular metaphor of the firm as a nexus of contracts,[13] which has also informed legal scholarship.[14]

As a theory of corporate governance the nexus of contracts theory fails, however. This theory fails because corporate governance begins precisely where the contract ends - when the contract proves incomplete (as it must), when information is incomplete (ditto), especially when it is unverifiable, or when enforcement of the contract is unlikely (as it may be on occasion, and in some places more systematically).[15] The combination of information asymmetries and self-interestedness results in power in the hands of the party who can unilaterally affect the interests of the other party. Putting aside altruistic and other pro-social motivations (without dismissing such motivations, however[16]), economic actors may exploit this power to their advantage by behaving opportunistically, defined by Oliver Williamson as "self-interest seeking with guile".[17] With regard to shareholder-management relations this is referred to as the "agency problem", following Jensen and Meckling.[18]

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[13] Armen A. Alchian & Harold Demsetz, *Production, Information Costs, and Economic Organization*, 62 AM. ECON. REV. 777 (1972); Michael C. Jensen & William H. Meckling, *Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure*, 3 J. FIN. ECON. 305, 305 (1976).

[14] *See*, e.g., FRANK H. EASTERBROOK & DANIEL FISCHEL, THE ECONOMIC STRUCTURE OF CORPORATE LAW (1991); Symposium, *Contractual Freedom in Corporate Law*, 89 COLUM. L. REV. 1395 (1989).

[15] *See* OLIVER HART, FIRM, CONTRACTS, AND FINANCIAL STRUCTURE (1995); Oliver Hart & John Moore, *Incomplete Contracts and Renegotiation*, 56 ECONOMETRICA 755 (1998); Oliver Hart, *Incomplete Contracts and the Theory of the Firm*, 4 J. L. ECON. & ORG. 119 (1988); *see* also Douglas B. Bernheim & Michael Whinston, *Incomplete Contracts and Strategic Ambiguity*, 88 AM. ECON. REV. 432 (1998).

[16] *See* Joel Sobel, *Interdependent Preferences and Reciprocity*, 43 J. ECON. LIT. 392 (2005); Stefano DellaVigna, *Psychology and Economics: Evidence from the Field*, 47 J. ECON. LIT. 315 (2009).

[17] OLIVER E. WILLIAMSON, THE ECONOMIC INSTITUTIONS OF CAPITALISM: FIRMS, MARKETS, RELATIONAL CONTRACTING 47 (1985).

[18] Jensen & Meckling, *supra* note 13.

In his seminal *Nature of the Firm*, Ronald Coase identified power as the essence of firms, which distinguishes them from contract-based market relations.[19] Coase likened firms to "islands of conscious power in this ocean of unconscious cooperation like lumps of butter coagulating in a pail of buttermilk." Thus, the firm is better conceptualized as a nexus of power relations.[20] Oliver Hart highlights property rights - namely, rights to exert power and dominion - as a necessary complement to contractual rights in a theory of the firm.[21]

The upshot is that societal regulation of power relations cannot rely exclusively on contractual arrangements. Institutional support for contracting - e.g., in the form of rules of contract laws and courts - may be socially beneficial, but in order to prevent power relations from collapsing social institutional regulation of power is absolutely crucial.[22] As George Akerlof has shown in his "Market for Lemons" model,[23] when the specter of opportunistic behavior due to information asymmetries is present in contract formation, parties respond rationally by assuming the worst, which leads to market failure. To enable contracting in such circumstances society must support it with extra-contractual means that lie beyond parties' control - namely, with social institutions, or with law and culture.

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[19] Ronald Coase, *The Nature of the Firm*, 4 ECONOMICA 386 (1937).

[20] Amir N. Licht, *The Maximands of Corporate Governance: A Theory of Values and Cognitive Style*, 29 DEL. J. CORP. L. 649, 653-654 (2004).

[21] *See supra* note 15; *see* also Oliver D. Hart, *Reference Points and the Theory of the Firm*, 75 ECONOMICA 404 (2008).

[22] *See* Daron Acemoglu & Simon Johnson, *Unbundling Institutions*, 113 J. POL. ECON. 949 (2005).

[23] George A. Akerlof, *The Market for "Lemons": Quality Uncertainty and the Market Mechanism*, 84 Q. J. ECON. 488 (1970).

## III. WHAT IS CULTURE AND HOW DO WE KNOW IT?

### *A. Basic Concepts*

Social scientist Raymond Williams has noted that "[c]ulture is one of the two or three most complicated words in the English language."[24] A definition proposed by the pioneering scholar Geert Hofstede considers culture as "the *collective* level of mental programming that is shared with some but not all other people" or the "software of the mind".[25] Another simple but insightful definition of culture would hold that culture defines "what goes with what". This definition reflects the fact that culture refers to implicit knowledge that people have on a wide variety of social practices, ranging from the conduct of leaders and lay people to clothing and food. Only rarely can one find reliable advice on "what goes with what" in guidebooks or in other formal sources.[26] What is "not done" ("*faux fas*") belongs in the unwritten and unspoken but still widely known in the society.

These definitions may suggest intuitions about what culture is yet they do not provide an analytical framework for cross-cultural analysis of law and governance. According to a more conceptual definition by the preeminent anthropologist Clifford Geertz, culture "denotes an historically transmitted pattern of meaning embodied in symbols, a system of inherited conceptions expressed in symbolic forms by means of which men communicate, perpetuate, and develop their knowledge about and attitudes toward life."[27] But what are these "symbolic forms"? Social scientists usually

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[24] RAYMOND WILLIAMS, KEYWORDS: A VOCABULARY OF CULTURE AND SOCIETY 76 (Rev. Ed. 1983).

[25] *See*, respectively, GEERT H. HOFSTEDE, CULTURE'S CONSEQUENCES: COMPARING VALUES, BEHAVIORS, INSTITUTIONS AND ORGANIZATIONS ACROSS NATIONS 2 (2001) (hereinafter "HOFSTEDE 2001"); GEERT H. HOFSTEDE, CULTURES AND ORGANIZATIONS: SOFTWARE OF THE MIND (3d Ed. 2010) (hereinafter "HOFSTEDE 2010").

[26] *Compare* top-chef Thomas Keller, *What Goes with What: Six Tips in how to Pair your Food*, ESQUIRE (March 2013).

[27] CLIFFORD GEERTZ, THE INTERPRETATION OF CULTURES: SELECTED ESSAYS 89 (1973).

mention values, beliefs, and norms as the major components that constitute culture. Defined in subjective terms, culture thus is the values, orientations, and underlying assumptions that are prevalent among the members of a society.[28]

With a meaningful definition of culture at hand the next step is to identify the ways in which culture may influence individuals' conduct and on social structure. The literature has pointed out two major mechanisms: constraints and motivations. The view of culture as a source of constraints is shared by economists and psychologists. The economic approach deserves some elaboration.[29]

Culture became an issue of central interest with the advent of New Institutional Economics.[30] In a canonical definition of social institutions, Douglas North states: "Institutions are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction."[31] Oliver Williamson has elaborated this notion with a model of stratified social institutions.[32] Williamson's model distinguishes four levels of analysis. "Level 1" consists of informal institutions. This is the level of culture - where norms, customs, mores, and

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[28] FLORENCE R. KLUCKHOHN & FRED L. STRODTBECK, VARIATIONS IN VALUE ORIENTATIONS (1961).

[29] For an insightful survey *see* SJOERD BEUGELSDIJK & ROBBERT MASELAND, CULTURE IN ECONOMICS: HISTORY, METHODOLOGICAL REFLECTIONS AND CONTEMPORARY APPLICATIONS (2011); *see* also Licht, *supra* note 10. In psychology, *see*, e.g., Michael Harris Bond & Peter B. Smith, *Cross-Cultural Social and Organizational Psychology*, 47 ANN. REV. PSYCHOL. 205, 209 (1996) (Culture is "shared constraints that limit the behavior repertoire available to members of a certain… group.").

[30] A line of scholarship on Institutional Theory, infused with insights from sociology, has evolved largely in parallel though there is some recent convergence. I abstract from it for scope limits. *See* Paul J. DiMaggio & Walter W. Powell, *The Iron Cage Revisited: Institutional Isomorphism And Collective Rationality in Organizational Fields*, 48 AM. SOC. REV. 147 (1983); W. RICHARD SCOTT, INSTITUTIONS AND ORGANIZATIONS (2d ed. 2001); W. Richard Scott, *Approaching Adulthood: The Maturing of Institutional Theory*, 37 THEORY & SOC. 427 (2008).

[31] DOUGLASS C. NORTH, INSTITUTIONS, INSTITUTIONAL CHANGE, AND ECONOMIC PERFORMANCE 3 (1990)

[32] Oliver E. Williamson, *The New Institutional Economics: Taking Stock, Looking Ahead*, 38 J. ECON. LIT. 595 (2000).

traditions are located and where religion plays a role.[33] Level 2, located below Level 1, consists of formal legal rules, comprising constitutions, law, property rights, etc. Governance structures (e.g., in firms and social networks) and marginal analysis (e.g., of economic outcomes and prices) belong to Levels 3 and 4, respectively. In this model, higher levels impose constraints on the development of the levels immediately below. Figure 1 describes graphically the four levels, causal links (represented by solid arrows), and feedback links (represented by dashed arrows).

[Figure 1 about here]

The analysis of culture and law deals with the informal institutions (culture) located at Level 1 and their relations with formal institutions (law) at Level 2. According to Williamson, "Level 1 is taken as given by most institutional economists." He further postulates that Level 1 informal institutions are "pervasively linked with complementary institutions," both formal and informal. The resulting institutions "have a lasting grip on the way a society conducts itself."[34] In this view, the constraining effect of informal institutions is exogenous. Alternatively, informal institutions are modeled as endogenously-appearing self-enforcing rules that are the equilibrium of a repeated game, in which the content of such institutions to be common knowledge.[35] Social players thus interact with partners assumed to share the same priors (beliefs) and to be guided by a similar set of motivational goals (values). The constraining effect of culture as societal common knowledge in equilibrium

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[33] Williamson, *id.*, identifies Level 1 with the notion of "embeddedness" proposed by Mark Granovetter, *Economic Action and Social Structure: The Problem of Embeddedness*, 91 AM. J. SOC. 481 (1985). Both concepts must not be confused with the cultural orientation of embeddedness identified by Schwartz that is discussed below.

[34] Williamson, *supra* note 32, at 597.

[35] *See* Gérard Roland, *Understanding Institutional Change: Fast-Moving and Slow-Moving Institutions*, 38 STUD. COMP. INT'L DEVELOPMENT 109 (2004); MASAHIKO AOKI, TOWARDS A COMPARATIVE INSTITUTIONAL ANALYSIS (2001); Avner Greif & David D. Laitin, *A Theory of Endogenous Institutional Change*, 98 AM. POL. SCI. REV. 633 (2004).

stems from the shared conviction that it is in everybody's self-interest to adhere to these values and beliefs unless and until an exogenous shock upsets the equilibrium.

*B. Cultural Value Dimensions*

The thorniest challenge perhaps in introducing culture into institutional analysis stems from its complexity, which makes it difficult to derive tractable, and testable, hypotheses on its role. Cultures are rich, multi-faceted institutions with protracted histories. On the one hand, this richness enables everyone to find in a particular culture something to one's liking and tell a just-so story about it. On the other hand, culture's complexity may lead an observer to avoid the details and treat culture a "black box" but such an approach is, at bottom, not much different than the former. A meaningful, rigorous analyses of informal institutions requires a methodology for operationalizing culture, i.e., identifying factors with which cultures could be represented and compared.

Cross-cultural psychology has made considerable progress toward developing an analytical framework for comparing cultures. A common postulate in cross-cultural psychology is that all societies confront similar basic issues or problems when they come to regulate human activity. The cultural responses to the basic problems that societies face are reflected, among other things, in prevailing value emphases of individuals.[36] Because values vary in importance, it is possible to characterize societies by the relative importance attributed to these values in the society using dimensional models. This yields unique cultural profiles for societies or countries.[37]

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[36] *See*, e.g., MILTON ROKEACH, THE NATURE OF HUMAN VALUES (1973); KLUCKHOHN & STRODTBECK, *supra* note 28.

[37] I use "cultural" and "societal" interchangeably because the present focus is on national societies. However, it is possible to implement the value dimension framework to study sub-national groups. *See* Heather M. Coon & Markus Kemmelmeier, *Cultural Orientations in the United States: (Re-)examining Differences Among Ethnic Groups* 32 J. CROSS-CULTURAL PSYCHOL. 348 (2001); *Compare* Andriy

Among the dimensional models for cross-cultural analysis, by far the more important ones are the models advanced by Hofstede and by Shalom Schwartz. Hofstede's pioneering and still influential dimensional framework for characterizing cultures was first published in 1980 using data that were collected from IBM employees around the world during 1968-1973.[38] Hofstede identified four, and later, five, value dimensions: individualism/collectivism, power distance, uncertainty avoidance, Masculinity/femininity,[39] and long-term orientation.[40] His framework has been used in hundreds of studies; it is widely used in studies on management and accounting and in recent years it is gaining traction in economics. Table 1 provides definitions of the cultural value dimensions distinguished by Hofstede.

[Table 1 about here]

Schwartz developed a cultural-level theory during the 1990s and validated it in survey data that covered some 67 nations.[41] Schwartz derives three bipolar cultural value dimensions from three basic issues he identifies as confronting all societies: embeddedness/autonomy, hierarchy/egalitarianism, and mastery/harmony. In coping

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Boytsun, Marc Deloof & Paul Matthyssens, *Social Norms, Social Cohesion, and Corporate Governance*, 19 CORP. GOVERNANCE: INT'L REV. 41 (2011).

[38] GEERT H. HOFSTEDE, CULTURE'S CONSEQUENCES: INTERNATIONAL DIFFERENCES IN WORK-RELATED VALUES (1980); HOFSTEDE 2001, *supra* note 25.

[39] This label has elicited negative responses. Writing originally in 1980, Hofstede nonetheless kept this term, arguing that it reflects a positive reality that is independent of its normative implications. HOFSTEDE 1980, *supra* note 25, at 189-90. In the 2001 edition, Hofstede follows the modern distinction between *sex* and *gender* and uses the latter term when referring to social function. HOFSTEDE 2001, *supra* note 25, at 280. *See* also GEERT H. HOFSTEDE & WILLEM A. ARRINDELL, MASCULINITY AND FEMININITY: THE TABOO DIMENSION OF NATIONAL CULTURES (1998).

[40] Hofstede added this dimension in 1991 in the first edition of HOFSTEDE 2010, *supra* note 25, in light of a study led by Michael Bond. There, it was named "Confucian work dynamism." *See* Chinese Cultural Connection, *Chinese Values and the Search for Culture-Free Dimensions of Culture,* 18 J. CROSS-CULTURAL PSYCHOL. 143 (1987).

[41] *See* Shalom H. Schwartz, *Cultural Value Differences: Some Implications for Work*, 48 APPL'D PSYCHOL. INT'L REV. 23 (1999); Shalom H. Schwartz, *A Theory of Cultural Value Orientations: Explication and Applications*, 5 COMP. SOCIOL. 137 (2006) ("Schwartz 2006"); Shalom H. Schwartz, *Culture Matters: National Value Cultures, Sources and Consequences*, in UNDERSTANDING CULTURE: THEORY, RESEARCH AND APPLICATION 157 (Chi-Yue Chiu et al. eds., 2009).

with these issues, societies exhibit greater or lesser emphasis on the values at one or the other pole of each dimension. Seven value orientations on which cultures can be compared derive from the analysis of the bipolar dimensions (due to a distinction between intellectual autonomy and affective autonomy). The theory also specifies the structure of relations among these types of values. Table 2 provides definitions of the cultural value dimensions distinguished by Schwartz. Figure 2 presents graphically the relations among the value dimensions and orientations as well as values that are prominent in each orientation.

[Table 2 about here]

[Figure 2 about here]

Both the Hofstede and Schwartz models retain their usefulness notwithstanding a generation gap between them. The dimensions of each model bear some conceptual similarity and empirical convergence yet they do not fully overlap. Individualism might exhibit significant relations in a particular study while autonomy would not, whereas in another study egalitarianism may feature highly while power distance would not.[42] Each dimension thus likely captures a somewhat different social institutional feature. Between the two models, Schwartz's model is currently considered more advanced for a number of reasons. First, the model is theory-driven, its central elements having been derived from earlier work in the social sciences. Second, and most important, the model uses value measures shown to have cross-culturally

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[42] *See*, e.g., Yuriy Gorodnichenko & Gerard Roland, *Which Dimensions of Culture Matter for Long Run Growth?*, 101 AM. ECON. REV. 492 (2011); Mariko J. Klasing, *Cultural Dimensions, Collective Values and their Importance for Institutions*, 41 J. COMP. ECON. 447 (2013); Jordan I. Siegel, Amir N. Licht & Shalom H. Schwartz, *Egalitarianism and International Investment*, 102 J. FIN. ECON. 621 (2011).

equivalent meanings at the individual level to operationalize the cultural dimensions. Finally, validating data for this model were collected relatively recently.[43]

*C. Beyond Cultural Values*

In addition to the Hofstede and Schwartz frameworks, a handful of other dimensional models and datasets that share a similar impetus also allow for cross-cultural analysis. Because they are less frequently used and suffer from various limitations that cannot be discussed in the present scope I abstract from them here.[44] Instead, I briefly point out two dimensional theories that were developed in cross-cultural psychology more recently. These theories make a deliberate attempt not to use values for comparing cultures. Thus far, they have received less attention.

Michael Bond, Kwork Leung, and their colleagues developed a model of cultural-level beliefs, or "social axioms".[45] While values are defined as conceptions of the desirable, social axioms are generalized beliefs about oneself, the social and physical environment, or the spiritual world. These researchers identified two such cultural axioms: Dynamic externality refers to beliefs in fate, the existence of a supreme being, positive functions of religion practice, and also beliefs in effort and knowledge. Societal cynicism reflects a negative view of human nature and a mistrust in social institutions. Michelle Gelfand and her co-researchers operationalized a

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[43] *See* PETER B. SMITH, MICHAEL HARRIS BOND, & CIGDEM KAGITCIBASI, UNDERSTANDING SOCIAL PSYCHOLOGY ACROSS CULTURES: LIVING AND WORKING IN A CHANGING WORLD (2006); BEUGELSDIJK & MASELAND, *supra* note 29. Hofstede's framework has met a series of criticisms. For a review and responses to these criticisms *see* HOFSTEDE 2001, *supra* note 25.

[44] *See*, in particular, Ronald Inglehart & Wayne E. Baker, *Modernization, Cultural Change, and the Persistence of Traditional Values*, 65 AM. SOC. REV. 19, 24 tbl.1 (2000); for details and data see World Values Survey, http://www.worldvaluessurvey.org (last visited February 13, 2014). For a comparative discussion *see* Schwartz 2006, *supra* note 41. *See* also GLOBAL LEADERSHIP & ORGANIZATIONAL BEHAVIOR EFFECTIVENESS (GLOBE) PROJECT, CULTURE, LEADERSHIP, AND ORGANIZATIONS: THE GLOBE STUDY OF 62 SOCIETIES (Robert J. House et al. eds., 2004); CHARLES M. HAMPDEN-TURNER & FONS TROMPENAARS, BUILDING CROSS-CULTURAL COMPETENCE: HOW TO CREATE WEALTH FROM CONFLICTING VALUES (2000).

[45] Michael Harris Bond et al., *Culture-Level Dimensions of Social Axioms and their Correlates across 41 Cultures*, 35 J. CROSS-CULTURAL PSYCHOL. 548 (2004).

dimension of cultural tightness-looseness - namely, the strength of social norms and the degree of tolerance of deviant behavior within societies.[46] These dimensions appear related to societal stances toward opportunism and agency problems. They await utilization and may prove useful in analyses of corporate governance systems.

*D. Social Capital*

A different vantage point for considering culture and corporate governance draws on social capital theory. While there is no agreed definition of social capital, much of the discourse about it is dominated by the views of James Coleman and Robert Putnam.[47] Social capital consists of shared values, beliefs, and norms - hence the conceptual proximity to culture. The most prominent norm is a norm of generalized trust, defined as the shared belief that most others are trustworthy and therefore have benign intentions or, more technically, the probability that two randomly chosen people will trust each other in a one-time interaction. According to Coleman, a group within which there is extensive trustworthiness and extensive trust is able to accomplish much more than a comparable group without that trustworthiness and trust. A social norm of generalized trust thus entails wide-ranging implications, including for corporate governance, as this norm implies lesser concern with, and perhaps lesser incidence of, opportunistic behavior in firms. This, in turn, may be conducive to economic growth and other beneficial effects.[48]

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[46] Michelle Gelfrand, Lisa H. Nishii, & Jana L. Rayer, *On the Nature and Importance of Cultural Tightness-Looseness*, 91 J. APPLIED PSYCHOL. 1225 (2006); Michelle Gelfand et al., *Differences between Tight and Loose Cultures: A 33-Nation Study*, 331 SC. 1100 (2011).

[47] James S. Coleman, *Social Capital in the Creation of Human Capital*, 94 AM. J. SOC. S95 (1988); ROBERT D. PUTNAM, MAKING DEMOCRACY WORK: CIVIC TRADITIONS IN MODERN ITALY (1993); ROBERT D. PUTNAM, BOWLING ALONE: THE COLLAPSE AND REVIVAL OF AMERICAN COMMUNITY (2000); *see* also Pierre Bourdieu, *The Forms of Capital*, in THE HANDBOOK OF THEORY: RESEARCH FOR THE SOCIOLOGY OF EDUCATION 241 (John G. Richardson ed., 1986). For an historical survey *see* James Farr, *Social Capital: A Conceptual History*, 32 POL. THEORY 6 (2004).

[48] *See* Stephen Knack & Philip Keefer, *Does Social Capital Have an Economic Payoff: A Cross-Country Investigation*, 112 Q. J. ECON. 1251 (1997); Paul J. Zak & Stephen Knack, *Trust and Growth*,

Operationalizing and measuring generalized trust - especially with the "generally speaking question" in Inglehart's World Values Survey and in similar surveys in Europe and the United States - is not free of issues, however.[49] Indeed, the very notion of trust is currently debated and is anything but stable even as a concept.[50] Nevertheless, social capital theory goes beyond theories of cultural value dimensions in pointing out the centrality of social networks, in which social relationships and interactions are embedded.[51] Ties in social networks function as information channels for observing others, monitoring, advising and consulting with others, etc.

These observations point to various structural features of social networks as factors that may affect their functioning, including in corporate governance. For example, a network's density, defined as the number of ties between actors in a network, may positively affect the flow of information. Dense networks thus may discourage opportunistic behavior within the network because defection is more likely to be observed due to lower information asymmetry. A separate line of social network scholarship initiated by Ronald Burt emphasizes a structural feature dubbed "structural holes". A structural hole denotes weaker connections between groups that impede the flow of information between them, while providing those who can bridge the hole with opportunities to derive private benefits from such brokerage.[52]

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111 ECON. J. 295 (2001); Roman Horváth, *Does Trust Promote Growth?*, 41 J. COMP. ECON. 777 (2013).

[49] Specifically, the question is: "Generally speaking, would you say that most people can be trusted, or that you cannot be too careful in dealing with people?". *See* Benjamin Volland, Trust, Confidence, and Economic Growth. An Evaluation of the Beugelsdijk Hypothesis, working paper (2010).

[50] *See* Ken Newton & Sonja Zmerli, *Three Forms of Trust and their Association*, 3 EUR. POL. SC. REV. 169 (2011).

[51] *See* Granovetter, *supra* note 33; *see* also Mark Granovetter, *The Impact of Social Structure on Economic Outcomes*, 19 J. ECON. PERSP. 33 (2005).

[52] For a discussion of networks' structural features *see* Amir Barnea, Cesare Fracassi & Ilan Guedj, Director Networks, working paper (2013); Ronald S. Burt, Martin Kilduff & Stefano Tasselli, *Social Network Analysis: Foundations and Frontiers on Advantage*, 64 ANN. REV. PSYCHOL. 527 (2013).

### *E. Causality*

Culture used to have a bad name among economists. It was not particularly popular among lawyers as well. One reason probably was that culture is very difficult to observe. One therefore may fear that people would resort to cultural explanations when they run out of good ones, as the former would be impossible to disprove - what was referred to above as "just-so stories". This problem can be addressed by using data on cultural dimensions that derive from rigorous operationalization methodologies. Integrating cultural factors into institutional analyses faces another challenge, however - of showing causality. Because culture comprises values and beliefs and these factors are usually assessed using survey data, one might fear that cultural observations might be either merely epiphenomenal - namely, reflections of more fundamental factors - or endogenous with other institutional factors or policy outcomes. These concerns are well taken.

To argue that "culture matters" one therefore needs to go beyond showing significant correlations to adducing evidence for causal effects of culture. Using panel data that include observations over time may not be informative because, barring major shocks, cultures evolve over very long time spans, ranging from decades to millennia. To assess the causal role of culture on institutions and policy outcomes scholars in the last decade thus have relied on a different approach that employs instrumental variables, some of them quite imaginative. Briefly, a good instrument should relate to culture in a meaningful way and relate to the dependent factor only through its relation to culture. Luigi Guiso, Paula Sapienza, and Luigi Zingales used historical data on wars and genetic data to gauge the impact of trust on economic exchange.[53] In a joint study with Chanan Goldschmidt and Shalom Schwartz we introduced linguistic variables on grammar of the dominant language to establish an effect of embeddedness/autonomy on the rule of law, corruption, and democratic accountability in nations.[54] Another joint study, with Jordan Siegel and Shalom Schwartz, used past war experience, religion, and societal fractionalization to assess the role of egalitarianism on international investment.[55] Recent studies exploit data on the natural environment such as parasite and pathogen prevalence and on rainfall as instruments for individualism.[56]

## IV. CULTURE'S CONSEQUENCES FOR CORPORATE GOVERNANCE

### *A. Relevance*

So culture matters. But (how) does it matter for corporate governance? (How) does it interact with corporate laws to affect corporate governance? According to Beugelsdijk & Maseland, "many scholars struggle with the concept of culture. It is unclear whether legal origin is seen *as* culture (it is, just like culture, an exogenous factor) or whether there is a relationship between legal origin *and* culture."[57]

A key insight here is that culture, as an informal institution, can address the very issues that governance, including corporate governance, calls for regulating. Formal social institutions and formal private arrangements - that is, laws and

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[53] Luigi Guiso, Paola Sapienza & Luigi Zingales, *Does Culture Affect Economic Outcomes?*, 20 J. ECON. PERS. 23 (2006).

[54] Amir N. Licht, Chanan Goldschmidt & Shalom H. Schwartz, *Culture Rules: The Foundations of the Rule of Law and Other Norms of Governance*, 35 J. COMP. ECON. 659 (2007).

[55] Siegel et al., *supra* note 41.

[56] *See* Robbert Maseland, *Parasitical Cultures? The Cultural Origins of Institutions and Development*. 18 J. ECON. GROWTH 109 (2013); Yuriy Gorodnichenko & Gérard Roland, Culture, Institutions and Democratization, working paper (2013); Lewis S. Davis, Individualism and Economic Development: Evidence from Rainfall Data, working paper (2011).

[57] BEUGELSDIJK & MASELAND, *supra* note 29, at 254 (emphases in the original).

contracts, respectively - must rely on shared understandings among societal members about persons and property, about interpersonal relations, or about the dynamics of life. I have argued that in a corporate governance setting, cultural orientations regarding these issues would bear on a broad set of questions, including modes of corporate finance, primary approaches to stakeholders, shareholding structures, self-dealing, executive compensation, disclosure, and so forth.[58] The cultural value dimension framework allows for opening the "black box" of culture and forming testable hypotheses about *which* cultural orientation may be related to a particular corporate governance issue in light of the content meaning of that issue.[59] Moreover, with an appropriate methodology, causal claims about culture's consequences for corporate governance can be made and tested.

To get a flavor of how culture might impact corporate governance consider CEO succession - one of the most significant challenges faced by every company, its board, and its shareholders. Early references to culture in this regard tended to be highly impressionistic if not stereotypical.[60] Granted, the culture of some countries may engender rather idiosyncratic practices for ensuring the quality of controlling persons. For instance, Vikas Mehrotra et al. report that in Japan, controlling families may adopt a brilliant executive with an average pedigree with a view to handing him

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[58] For a detailed theory *see* Amir N. Licht, *The Mother of all Path Dependencies: Toward a Cross-Cultural Theory of Corporate Governance Systems*, 26 DEL. J. CORP. L. 147 (2001); for a current discussion and review *see* Aguilera & Jackson, *supra* note 12.

[59] Licht, *id.*

[60] *See*, e.g., Lucian Arye Bebchuk & Mark J. Roe, *A Theory of Path Dependence in Corporate Governance and Ownership*, 52 STAN. L. REV. 127, 170 (1999) ("American culture, for example, resists hierarchy and centralized authority more than, say, French culture. German citizens are proud of their national codetermination. Italian family firm owners may get special utility from a longstanding family-controlled business, while an American family might prefer to cash the company earlier and run the family scion for the U.S. Senate.").

(it's him all right) the family firm.[61] This is a fascinating example that powerfully drives home the point that culture matters for corporate governance, but it is hard to generalize from it a lesson for other countries. Drawing on Hofstede's dimensions, these authors propose in a separate study that the spread of marriage-for-love helps undermine the family firm as a dominant business institution in many countries by depriving those firms of suitable heirs. This tendency is linked to cultural emphases on power distance, collectivism, and uncertainty avoidance.[62] These authors further find that family firm dominance in the economy interacted with arranged marriage norms also correlates with lower economic development, suggesting that cultural inertia may also impede convergence to more efficient economic organization.

At the most general level of analysis, of the structure of economic systems - sometimes referred to as "varieties of capitalism"[63] - culture has been linked to large-scale variation in such structures. Using the Schwartz dimensions, Frederic Pryor has shown that certain combinations of cultural orientations match the particular economic systems of OECD countries and in fact exert a causal effect on these systems.[64] In a somewhat similar spirit, Wolfgang Breuer and Astrid Salzmann observe that stronger cultural emphases on embeddedness, egalitarianism, and harmony in the Schwartz model correlate with bank-based corporate governance

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[61] *See* Vikas Mehrotra et al., *Adoptive Expectations: Rising Sons in Japanese Family Firms*, 108 J. FIN. ECON. 840 (2013). The authors are Vikas Mehrotra, Randall Morck, Jungwook Shim, and Yupana Wiwattanakantang.

[62] *See* Vikas Mehrotra et al., *Must Love Kill the Family Firm? Some Exploratory Evidence*, 35 ENTREPRENEURSHIP THEORY & PRACTICE 1121 (2011).

[63] *See* VARIETIES OF CAPITALISM: THE INSTITUTIONAL FOUNDATIONS OF COMPARATIVE ADVANTAGE (Peter A. Hall & David Soskice eds., 2001); *see* also CURTIS J. MILHAUPT & KATHARINA PISTOR, LAW & CAPITALISM (2008).

[64] *See* Frederic L. Pryor, *Culture Rules: A Note on Economic Systems and Values*, 36 J. COMP. ECON. 510 (2008).

systems, whereas opposite cultural emphases correlate with market-based systems.[65] Their results are robust to legal origin, which has separately been linked to varieties of capitalism.[66] Chuck Kwok and Solomon Tadesse have related the prevalence of bank-based versus market-based corporate governance systems to cultural emphases on Hofstede's uncertainty avoidance.[67]

*B. General Relations between Law and Culture*

The following sections review the relations between cultural orientations and particular subjects of corporate governance. Before that, this section discusses the general relations between culture and law, especially corporate law. As Williamson's model of social institutions explicates, in a standard setting, culture and law may interact. Culture sets informal constraints and provides motivations for developing the law in a culturally-compatible fashion. In tandem, societal patterns of compliance with, or deviance from, culturally-compatible laws inculcate in societal members the value emphases that these laws reflect.

On a deeper level than formal legal rules there lies the institution of legality, a.k.a. the rule of law, or, more roughly, property rights, or quality of institutions, or simply institutions. A social norm of legality functions as an interface between the informal and formal institutional level. For any law, including corporate law, to operate as designed there must exist a widely-shared social norm of law abidingness and law enforcement. Such a norm of legality means that the legal entitlements of societal members are respected - namely, their personal safety, tangible and intangible

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[65] Wolfgang Breuer & Astrid Salzmann, *National Culture and Corporate Governance*, in CORPORATE GOVERNANCE: RECENT DEVELOPMENTS AND NEW TRENDS 369 (Sabri Boubaker et al. eds. 2012).

[66] *See*, .e.g., Rafael La Porta, Florencio Lopez-de-Silanes & Andrei Shleifer, *The Economic Consequences of Legal Origins*, 46 J. ECON. LIT. 285 (2008).

[67] Chuck C. Y. Kwok & Solomon Tadesse, *National Culture and Financial Systems*, 37 J. INT'L BUS. STUD. 227 (2006)

property (e.g., shares and other cash-flow rights in firms), and other legal interests (e.g., voting rights). Every legal system by definition calls on people to obey the law, yet countries vary greatly in the degree to which laws are followed. A social norm of legality can ensure that formal laws are followed by drawing its injunctive force from its compatibility with certain cultural values - in particular, values that underscore the legitimacy of personal interests and the moral equality of individuals.[68]

A study with Goldschmidt and Schwartz confirms that cultural emphases primarily on Schwartz's autonomy and on Hofstede's individualism cause countries to have higher levels of legality and lower corruption (which are related).[69] A follow-up study with Amnon Lehavi extends this finding to greater protection of both tangible property and intellectual property in countries.[70] Claudia Williamson and Carrie Kerekes show that when both formal and informal institutional components are included in the analysis, the impact of formal constraints in explaining the security of property is greatly diminished, while informal constraints are highly significant.[71]

Exogenous shocks may take place at either or both levels of institutions. For example, a major war or conquest experience can affect cultural orientations. Such is the case, for example, with regard to a heritage of state-formation wars during the 19th century that promoted an ethos of equality of sacrifice, which today associates positively with egalitarianism.[72] This is also the case with regard to a communist rule

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[68] *See* Licht, *supra* note 10.

[69] *See* Licht, Goldschmidt & Schwartz, *supra* note 54.

[70] *See* Amnon Lehavi & Amir N. Licht, *BITs and Pieces of Property*, 36 YALE J. INT'L. L. 115 (2011).

[71] *See* Claudia R. Williamson & Carrie B. Kerekes, *Securing Private Property: Formal versus Informal Institutions*, 54 J. LAW & ECON. 537 (2011). These authors use measures for culture from the World Values Survey, Schwartz, and Hofstede.

[72] Siegel, Licht & Schwartz, *supra* note 42.

experience, which is negatively linked to egalitarianism.[73] The level of egalitarianism in a country in turn may affect, among other things, legally-mandated board representation of non-shareholder constituencies as well as other features that are conceptually compatible with egalitarianism. At the formal institutional level, the most well-known exogenous shock in the social institutions and corporate governance literature is British rule, either colonial or in other modes, which nearly invariably entailed the transplantation of a common law legal system; other colonial powers tended to implement a similar approach. This heritage has affected a massive set of legal rules, including on investor rights.[74]

In an exploratory study with Goldschmidt and Schwartz, we observe that countries' affiliation with a common law origin associates with lower uncertainty avoidance in Hofstede's model and with lower harmony in Schwartz's model. Moreover, the scores of legal rules of investor protection constructed by La Porta, Lopez-de-Silanes, Shleifer, and Vishny (LLSV) correlate negatively with these cultural orientations, whereas LLSV's scores of formalism in the court system correlate positively with these orientations.[75] These results are consistent with the view that a history of British rule has left an impact on both the culture and on the general "legal style" in countries such that these nations are more receptive to uncertain and open-ended, even entrepreneurial, mechanisms. Another set of analyses

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[73] *See* Shalom H. Schwartz, Anat Bardi & Gabriel Bianchi, *Value Adaptation to the Imposition and Collapse of Communist Regimes in East-Central Europe*, in POLITICAL PSYCHOLOGY: CULTURAL AND CROSS-CULTURAL FOUNDATIONS 217 (Stanley A Renshon & John Duckitt eds. 2000); Jordan I. Siegel, Amir N. Licht & Shalom H. Schwartz, *Egalitarianism, Cultural Distance, and FDI: A New Approach*, 24 ORG. SC. 1174 (2013).

[74] This literature is too broad to cite here. For a survey *see*, La Porta et al., *supra* note 66; *see* also in this volume [Ch. 6, Ch. 11, Ch. 12].

[75] *See* Amir N. Licht, Chanan Goldschmidt & Shalom H. Schwartz, *Culture, Law, and Corporate Governance*, 25 INT'L REV. L. & ECON. 229 (2005).

shows that classifications of countries according to legal origin and cultural region correlate with one another, in line with Williamson's theory.

In a joint study with Siegel and Schwartz we document positive correlations between egalitarianism and a set of legal rules that support the weak in the society, especially employees, the sick, and the elderly, thus reflecting a societal stance against abuse of power.[76] Hao Liang and Luc Renneboog showed that an index of country-level regulatory framework in relation to sustainability - a facet of corporate social responsibility (CSR) - correlates robustly with countries' legal origin and also with their scores on some of Hofstede's dimensions.[77] These findings together indicate that neither legal nor cultural classifications, when considered in isolation, may sufficiently account for variations in countries' legal regimes of corporate governance. Both levels of social institutions should be taken into consideration.[78]

1. A Note on Legal Transplants

The idea that formal laws and the functioning of the entire legal system may depend on cultural values in turn implicates the transplantation of legal rules - possibly the most prominent means for policy reform, especially in corporate governance. Legal transplantation is explored in detail in other chapters of this volume. Here, it will suffice to make a brief note on the role of culture.

Legal transplantation may occur through different channels. Transplantation may occur involuntary, as already noted, consequent to colonial occupation. Japan thus received a version of the Illinois business corporation law because the legal team

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[76] Siegel, Licht & Schwartz, *supra* note 42.

[77] *See* Hao Liang & Luc Renneboog, The Foundations of Corporate Social Responsibility, ECGI Working Paper 394/2013 (2013).

[78] This point thus calls into question the attempt of La Porta et al., *supra* note 66, to disprove an argument that "legal origins [are] merely proxies for cultural variables." Beyond certain shortcomings of their empirical approach, which considers a very limited set of legal rules and cultural orientations, the very hypotheses looks dubious in light of current theory and findings.

at the headquarters of General Douglas MacArthur, the Supreme Commander of the Allied Powers after World War II, comprised lawyers from Chicago.[79] Legal transplantation often takes place voluntarily through importation of legal mechanisms by legislators - as Korea did with regard to independent directors and U.S.-like fiduciary duties of board members[80] - or by courts - as Israel did with regard U.S.-like fiduciary duties of controlling shareholders.[81]

Whatever may be the channel of legal transplantation, the cultural environment of the receiving country plays a significant role in determining the manner and extent to which the transplant integrates with the receiving legal system.[82] People are more likely to comply with the law voluntarily to the extent that a social norm of legality prevails in general and to the extent that the transplant is conceptually compatible with the values that the local law reflects. Young Jeong, in a sober assessment of Korea's corporate governance reform program, thus implicates different facets of Korea's Confucian culture for the limited success with which the U.S.-oriented legal amendments have met.[83] A similar rejection of a legal transplant could take place even when the graft is synthetic rather than harvested from a real

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[79] *See* Mark D. West, *The Puzzling Divergence of Corporate Law: Evidence and Explanations from Japan and the United States*, 150 U. PA. L. REV. 527 (2001).

[80] *See supra* note 5 and accompanying text. The Korean corporate governance reform was not entirely voluntary, however, in that it came in the wake of the 1997 Asian financial crisis which forced Korea to apply for support from international financial institutions. *See* Hwa-Jin Kim, *Living with the IMF: A New Approach to Corporate Governance and Regulation of Financial Institutions in Korea*, 17 BERKELEY J. INT'L L. 61 (1999).

[81] C.A. 817/79, Kossoy v. Y.L. Feuchtwanger Bank Ltd., 38(3) P.D. 253. *See* Amir N. Licht, *David's Dilemma: A Case Study of Securities Regulation in a Small Open Market*, 2 THEORETICAL INQ. L. 673 (2001).

[82] I abstract from a related question dealing with the source from which a country may want to import a legal transplant. Cultural proximity would be beneficial here, too. *See* John Armour et al., *How Do Legal Rules Evolve? Evidence from a Cross-Country Comparison of Shareholder, Creditor, and Worker Protection*, 57 AM. J. COMP. L. 579 (2009).

[83] *See* Young-Cheol David K. Jeong, *Charting Corporate and Financial Governance in Korea in the New Decade*, 2 JINDAL GLOBAL L. REV. 99 (2011); *see* also Amir N. Licht, *Legal Plug-ins: Cultural Distance, Cross-Listing, and Corporate Governance Reform*, 22 BERKELEY J. INT'L. L. 195 (2004).

legal-system donor. Bernard Black, Reinier Kraakman, and Anna Tarassova thus attributed the colossal failure of a corporate law statute for Russia, that was designed to be more immune to the weaknesses of the court system there, to the country's culture of extreme self-dealing and corruption.[84] One may note that the latter two norms reflect lower autonomy and egalitarianism.

*C. The Objectives of the Corporation*

The debate over the objectives of the business corporation is one of the oldest and probably the most fundamental in corporate law. The proposition that shareholders are the primary beneficiaries of the corporation and hence directors' duties run to them is generally interpreted as calling on corporate fiduciaries to maximize (long-term) shareholder value.[85] The literature often refers to this proposition in shorthand as the "shareholder primacy norm" or the "shareholder wealth maximization norm". In contrast to shareholder primacy there stands an opposite view - the "stakeholder approach" - which calls on corporate fiduciaries to take into account, in addition to shareholders' interest, also the interests of other constituencies, including employees, creditors, customers, and the community.[86]

Legal doctrine regarding the objectives of the corporation varies among jurisdictions. Although common law and civil law jurisdictions often have been

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[84] *See* Bernard Black, Reinier Kraakman & Anna Tarassova, *Russian Privatization and Corporate Governance: What Went Wrong?*, 52 STAN. L. REV. 1739 (2000).

[85] *See e.g*. MICHAEL P. DOOLEY, FUNDAMENTALS OF CORPORATION LAW 97 (1995); D. Gordon Smith, *The Shareholder Primacy Norm,* 32 IOWA J. CORP. L. 277 (1998).

[86] *See* Martin Gelter, *Taming or Protecting the Modern Corporation? Shareholder-Stakeholder Debates in a Comparative Light*, 7 N.Y.U. J.L. & BUS. 641 (2011); Amir N. Licht, *The Maximands of Corporate Governance: A Theory of Values and Cognitive Style*, 29 DEL. J. CORP. L. 649 (2004); Michael Bradley et al., *The Purposes and Accountability of the Corporation in Contemporary Society: Corporate Governance at a Crossroads*, 62 L. & CONTEMP. PROBS. 9 (1999).

characterized as, respectively, shareholder-oriented and stakeholder-oriented,[87] even a cursory analysis challenges such a clear distinction. Thus, the laws of Delaware in the United States and of the United Kingdom endorse the shareholder-oriented approach. In Delaware, the ruling in *Gheewalla*[88] underscored shareholder primacy and dispelled any possible ambiguities following *Credit Lyonnais*.[89] U.K. law authorizes board members to consider the interests of non-shareholder constituencies but subordinates the latter to a primary objective of promoting "the success of the company for the benefit of its members [shareholders] as a whole."[90] In Canada, however, the Supreme Court's ruling in *BCE*[91] endorsed an approach that balances the interests of different (financial) constituencies. Finally, Indian law is a Chimera requiring directors "to promote the objects of the company for the benefit of its members as a whole, and in the best interests of the company, its employees, the shareholders, the community and for the protection of environment."[92]

In the civil law tradition things are not clearer. German law famously vests the managing board with the responsibility "to manage the corporation as the good of the enterprise and its retinue and the common wealth of folk and realm demand."[93] In China, the 2005 revision of its corporate law requires companies to comply with

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[87] *See* e.g., Bradley et al., *id.*; for empirical evidence *see* Dan S. Dhaliwal et al., *Nonfinancial Disclosure and Analyst Forecast Accuracy: International Evidence on Corporate Social Responsibility Disclosure*, 87 ACCTG. REV. 723 (2012).

[88] N. Am. Catholic Education v. Gheewalla, 930 A2d 92 (Del. 2007).

[89] Credit Lyonnais Bank Nederland, N. V. v. Pathe Communications Corp. 1991 WL 277613 (Del. Ch. 1991); *see* also Lyman Johnson, *Unsettledness in Delaware Corporate Law: Business Judgment Rule, Corporate Purpose*, 38 DEL. J. CORP. L. 405 (2013).

[90] Section 172 of the Companies Act, 2006 (U.K.).

[91] BCE Inc. v. 1976 Debentureholders, 2008 SCC 69, [2008] 3 S.C.R. 560.

[92] Section 166(2) of the Companies Act, 2013 (India).

[93] Section 70 of the 1937 *Aktiengesetz*; *see* Gelter, *supra* note 86.

"social morality" and to "bear social responsibilities."[94] In Sweden, however, the objective of business corporations is to generate profits for shareholders.[95]

The decades-long debate on this subject shows no sign of abating. Meanwhile, recent research provides several insights with regard to the role of values and culture that shed new light on it. Firstly, whatever the law might say on the objectives of the corporation, board members and top executives may adopt strategies that stray from that injunction. A joint study with Renée Adams and Lilach Sagiv finds that in Sweden, a social-democratic economy with a shareholder-oriented company law, board members and CEOs vary systematically in their willingness to endorse strategic actions that benefit shareholders at the expense of other stakeholders or balance the interests of several stakeholders.[96] This individual "shareholderism" stance is linked to directors' personal value profile; the more one endorses entrepreneurial values as guiding principles in one's life the more one supports shareholder-oriented strategies, and vice versa. Managers apparently draw on their personal values in deciding what is the right thing for the firm, the law notwithstanding.

This finding at the individual level of analysis points to culture at the societal level of analysis as an institution that, in tandem with the law, can exert substantial influence on corporations' strategic behavior in shareholder-stakeholder dilemmas. The cultural orientations that prevails in a country may affect the individual value preferences of managers and thus tilt their strategic decisions in a culturally-compatible direction. In addition, and regardless of their personal values, managers

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[94] Section 5 of the Company Law of the People's Republic of China.

[95] This widely-accepted doctrine derives from the Swedish Companies Act, 2005, Ch.3, § 3, which requires companies with a different objective to state this clearly in the articles of association.

[96] *See* Renée B. Adams, Amir N. Licht & Lilach Sagiv, *Shareholders and Stakeholders: How Do Directors Decide*, 32 STRATEGIC MGMT. J. 1331 (2011).

may also assess the public expectations of the surrounding social environment, what would be considered publicly legitimate, and so forth, and opt for compatible strategies.[97] Specifically, firms in more egalitarian societies would endorse more stakeholderist strategies, as this cultural orientation expresses a moral equality of all people. Higher harmony may also be related to stakeholderist strategies as it reflects lesser tolerance toward exploitation of the social and natural environment. In the Hofstede model, individualism may relate to shareholderism as the former connotes selfishness at the expense of others, but this conjecture is qualified by the fact that the opposite orientation, collectivism, focuses on the ingroup.

Recent empirical studies provide some support for these hypotheses. A study by Siegel and Barbara Larson finds that subsidiaries of a large multinational company adjust their employment practices to the host countries' egalitarianism levels.[98] In a study with Siegel and Schwartz, we show positive correlations between cultural egalitarianism and national averages of a series of firm-level CSR practices such as paying greater firm surplus to employees, voluntary (i.e., non-legally-mandated) nonfinancial (CSR) disclosure, organizational practices that consider human rights in the process of selecting or terminating suppliers or sourcing partners and that take the general community into consideration more generally.[99] Kurt Desender and Mircea Epure present a more systematic analysis, finding robust relations between

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[97] *See* Licht, *supra* note 58; Licht, *supra* note 86; Ruth V. Aguilera & Gregory Jackson, *The Cross-National Diversity of Corporate Governance: Dimensions and Determinants*, 28 ACAD. OF MGMT. REV. 447 (2003); Dirk Matten & Jeremy Moon, *"Implicit" and "Explicit" CSR: A Conceptual Framework for a Comparative Understanding of Corporate Social Responsibility*, 33 ACAD. MGMT. REV. 404 (2008).

[98] *See* Jordan I. Siegel & Barbara Z. Larson, *Labor Market Institutions and Global Strategic Adaptation: Evidence from Lincoln Electric*, 55 MGMT. SC. 1527 (2009).

[99] Siegel et al., *supra* note 73.

egalitarianism and a set of indexes for corporate social performance (CSP).[100] Although highly suggestive, limitations of current data on CSR, among other things, render these findings tentative at this stage.[101]

*D. Relations with Investors (and other Stakeholders)*

Recall the definition of corporate governance as the institutional framework that regulates the division and exercise of power in the corporation - a framework that eventually determines the division of wealth among all corporate stakeholders.[102] This section demonstrates the role that culture may play with regard to key issues in the relations with investors and other stakeholder - namely, earnings management, as a facet of the informational regime that governs public companies, and dividend policy, as a facet of firms' financial relations with its stakeholders.

1. Disclosure: Earnings Management

Information asymmetry is pivotal in engendering agency problems. Societies, firms, and individual actors may respond to the challenge posed by agency problems through different measures of disclosure with a view to mitigating these information asymmetries. A disclosure regime regulates the way in which firms communicate with their stakeholders and with market participants more generally. Much of this communication takes place through highly formatted financial statements that are regulated by formal legal rules and accounting standards. Within this formal

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[100] Kurt A. Desender & Mircea Epure, Corporate Governance and Corporate Social Performance, working paper (2013); *see* also Gijs van den Heuvel, Joseph Soeters & Tobias Gössling, *Global Business, Global Responsibilities: Corporate Social Responsibility Orientations Within a Multinational Bank*, BUS. SOC. (forthcoming 2014).

[101] On the role of social networking *see* David Diaz, Babis Theodoulidis & Azar Shahgholian, Social Networking Influence on Environmental and Corporate Performance, working paper (2012). Evidence using Hofstede dimensions is somewhat inconclusive. *See* Ioannis Ioannou & George Serafeim, *What Drives Corporate Social Performance? The Role of Nation-Level Institutions*, 34 J. INT'L. BUS. STUD. 834 (2012); Foo Nin Ho, Hui-Ming Deanna Wang & Scott J. Vitell, *A Global Analysis of Corporate Social Performance: The Effects of Cultural and Geographic Environments*, 107 J. BUS. ETHICS 423 (2012).

[102] *See supra* note 12 and accompanying text.

straightjacket, insiders may still have some wiggle room to massage the financial statements a little bit (short of cooking the books). At the heart of this endeavor lies the financial bottom line - the firm's earnings numbers. Since accounting scholars pioneered the implementation of the cultural value dimension framework, we now have a good deal of research on culture's consequences for various accounting issues,[103] including earnings management.

Earnings management is the practice of exercising judgment in financial reporting to mislead some stakeholders about firm performance or to influence contractual outcomes.[104] Corporate insiders may want to manage earnings numbers in order to be eligible to contingent remuneration, or to meet financial covenants in debt instruments, or to meet analysts' expectations and avoid an embarrassment, and so forth. Earnings can be managed to reduce intertemporal variability in reported earning ("smoothing") or to meet certain targets. In a study of earnings management around the world, Christian Leuz, Dhananjay Nanda, and Peter Wysocki have found a significant negative relation between earnings management and two measures of investor protection through the legal system - namely, legal enforcement (rule of law) and outside investor rights, proxied with LLSV's index.[105] This finding is consistent with the idea that legal systems that better protect investor rights do this also through increasing transparency about "unpleasant" information and reducing insiders' discretion in their communication with the market.

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[103] *See* Sidney J. Gray, *Towards a Theory of Cultural Influence on the Development of Accounting Systems Internationally*, 24 ABACUS 1 (1988); Stephen B. Salter & Frederick Niswander, *Cultural Influence on the Development of Accounting Systems Internationally: A Test of Gray's (1988) Theory*, 26 J. INT'L BUS. STUD. 379 (1995).

[104] *See* Paul M. Healy & James M. Wahlen, *A Review of the Earnings Management Literature and Its Implications for Standard Setting*, 13 ACCT. HORIZONS 365 (1999).

[105] *See* Christian Leuz, Dhananjay Nanda & Peter D. Wysocki, *Earnings Management and Investor Protection: An International Comparison*, 69 J. FIN. ECON. 505 (2003).

Against this backdrop, Timothy Doupnik has found that Hofstede's uncertainty avoidance correlates positively and individualism correlates negatively with earnings management across a broad cross-section of countries. Culture was found to have greater explanatory power with regard to earnings smoothing and to explain more variation than Leuz et al.'s legal factors.[106] Several subsequent studies corroborate Doupnik's results and also document a negative relation between earnings management and Schwartz's egalitarianism, with some observing that formal legal measures lose significance altogether as predictors for earnings management when culture is entered in the regressions.[107]

These findings suggest that societies whose culture emphasizes individual initiative and responsibility to one's actions would channel corporate managers to communicate with stakeholders in a way that does not obfuscate information. Importantly, managers exercise this discretion in reporting above and beyond the call of legal duty. The positive correlation with egalitarianism similarly expresses a shared view that all stakeholders and market participants deserve candor. The findings for uncertainty avoidance suggest that in cultures that perceive uncertainty as threatening, managers may have a stronger inclination to present financial results in a way that conceals actual variability and conveys an image of stability and control.

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[106] *See* Timothy S. Doupnik, *Influence of Culture on Earnings Management: A Note*. 44 ABACUS 317 (2008).

[107] *See* Liming Guan & Hamid Pourjalali, *Effect of Cultural Environmental and Accounting Regulation on Earnings Management: A Multiple Year-Country Analysis*, 17 ASIA-PAC. J. ACCTG. & ECON. 99 (2010); Jeffrey L Callen, Mindy Morel & Grant Richardson, *Do Culture and Religion Mitigate Earnings Management? Evidence from a Cross-Country Analysis*, 8 INT'L J. DISCLOSURE & GOVERNANCE 103 (2010); Kurt A. Desender, Christian E. Castro & Sergio Antonio Escamilla de Léon, *Earnings Management and Cultural Values*, 70 AM. J. ECON. SOCIOL. 639 (2011); Xu Zhang, Xing Liang & Hongyan Sun, *Individualism–Collectivism, Private Benefits of Control, and Earnings Management: A Cross-Culture Comparison*, 114 J. BUS. ETHICS 655 (2013). Desender et al. report also for egalitarianism. One study, however, finds the opposite for individualism and uncertainty avoidance - a point that deserves a separate analysis. *See* Sam Han et al., *A Cross-Country Study on the Effects of National Culture on Earnings Discretion*, 41 J. INT'L BUS. STUD. 123 (2010).

Others in the market tolerate and even expect such behavior as they share the same discomfort with random fluctuations.

When the findings for formal and informal institutions are considered together, the picture that emerges is one of institutional affinities and complementarities, consistent with Williamson's model. As Licht et al. have argued, neither law nor culture alone is sufficient for understanding how corporate governance systems function with regard to the informativeness of financial disclosure. Leuz, in another study that uses cultural groupings of countries based on Schwartz dimensions, generalizes this point with regard to investor protection and self-dealing regulation.[108] The upshot is that regulatory regimes that appear similar or even identical, such as IFRS accounting standards or EU directives, may nonetheless exert a differential impact depending on the cultural environment.

2. Distribution: Dividend Policy

Several theories purport to explain dividend policies.[109] Agency theory holds that dividends may serve to discipline insiders from behaving opportunistically by denying them free funds that could be extracted as private benefits or allow for managerial slack. In this view, discretionary dividend payouts may substitute for legal rights that ensure investor protection. LLSV, however, have documented a positive relation between shareholder rights and dividend payouts around the world.[110] This finding arguably supports an outcome theory of dividends - namely, that minority shareholder rights support pressures to release free cash to shareholders.

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[108] *See* Christian Leuz, *Different Approaches to Corporate Reporting Regulation: How Jurisdictions Differ and Why*, 40 ACCT. BUS. RES. 229 (2010); *see* also Zhang et al., *id.*; Stephen Salter & Philip A. Lewis, *Shades of Gray: An Empirical Examination of Gray's Model of Culture and Income Measurement Practices Using 20-F Data*, 27 ADVANCES ACCT. 132 (2011).

[109] *See* Alon Brav et al., *Payout Policy in the 21st Century*, 77 J. FIN. ECON. 483 (2005).

[110] *See* Rafael La Porta et al., *Agency Problems and Dividend Policies around the World*, 55 J. FIN. 1 (2000).

Dividend payout increases default risk and might limit future investment such that it affects additional stakeholders like creditors and employees.

Jana Fidrmuc and Marcus Jacob have used empirical specifications similar to LLSV's, which they augmented by entering variables for cultural dimensions from Hofstede and Schwartz in addition to the legal environment variables. These tests revealed strong relations between culture and dividend payouts - specifically, positive for individualism and negative for power distance and uncertainty avoidance, and positive for autonomy and egalitarianism (negative for embeddedness and hierarchy). Among the legal factors, only some exhibited significant relations - namely, public enforcement of securities laws and (weakly) an anti-self-dealing index from Djankov et al.'s study.[111]

Several other studies have looked at the relations between culture and dividend payouts, with some obtaining results in line with Fidrmuc and Jacob and others finding differently. Unfortunately, certain studies raise methodological issues that make it difficult to compare their findings, such that the empirical evidence on this subject is in some disarray. Due to scope limitations, I refer to these studies only briefly. The fuller discussion that they deserve is relegated to another occasion.

Dara Khambata and Wei Liu, indeed pioneering this line of inquiry, have reported that a propensity to pay dividends in the Asia-Pacific region associates negatively with uncertainty avoidance and long-term orientation.[112] Sung Bae, Kiyoung Chang, and Eun Kang find that dividend payout in general correlates negatively with uncertainty avoidance, masculinity, and long-term orientation, but

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[111] Simeon Djankov et al., *The Law and Economics of Self-Dealing*, 88 J. FIN. ECON. 430 (2008).

[112] *See* Dara Khambata & Wei (Wendy) Liu, *Cultural Dimensions, Risk Aversion and Corporate Dividend Policy*, 6 J. ASIA-PAC. BUS. 31 (2005). Beside it small sample, this study fails to consider other Hofstede dimensions, primarily individualism.

their signs flip to significantly positive in a subsample of countries with a high anti-self-dealing legal regime (which is significant but unstable).[113] Liang Shao, Chuck Kwok, and Omrane Guedhami report negative relations with dividend payouts for mastery but, in contrast to other studies, positive relations for embeddedness; shareholder rights, per LLSV's early anti-director rights index, are positively related to dividends only in firm-level tests.[114] Finally, in an interesting paper, Wolfgang Breuer, Oliver Rieger, and Can Soypak introduce behavioral measures intended to capture patience, loss aversion, and ambiguity aversion for explaining dividend policies.[115] For robustness checks these authors enter some dimensions from Hofstede and Schwartz and various legal protection measures, with uneven results.

The decidedly mixed empirical findings on culture, the legal environment, and dividends, combined with the theoretical puzzle that such policies still pose, defy any coherent interpretation of culture's role in this setting. One thing is clear at this stage: When corporate insiders use their discretion to decide on dividend distributions, they comply with implicit injunctions of informal cultural institutions just as much, and perhaps even more strongly, as they respond to formal legal constraints.

*E. Executive Compensation*

Few issues of corporate governance trigger heated debates and (sometimes frenzied) regulatory intervention as executive compensation does. Executive

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[113] *See* Sung C. Bae, Kiyoung Chang & Eun Kang, *Culture, Corporate Governance, and Dividend Policy: International Evidence*, 35 J. FIN. RES. 289 (2012). These authors fail to consider individualism/collectivism in light of its very high correlation with long-term orientation. The latter thus might crudely proxy for collectivism.

[114] *See* Liang Shao, Chuck C.Y. Kwok & Omrane Guedhami, *National Culture and Dividend Policy*, 41 J. INT'L BUS. Stud. 1391 (2010). These authors use an early release of the Schwartz data and a 21-country sample; they erroneously consider egalitarianism and harmony vs. hierarchy and mastery as belonging to a single dimension and report separately for all orientations.

[115] *See* Wolfgang Breuer, M. Oliver Rieger, & K. Can Soypak, The Behavioral Foundations of Corporate Dividend Policy: A Cross-Country Analysis, working paper (2013). Using individual-level and societal-level factors interchangeably as these authors occasionally do calls for elaboration.

compensation is a complex issue and corporate governance is only one aspect of it.[116] Whether one subscribes to the "managerial power" theory of executive pay or to the "optimal contracting" theory, there is no denying that executive compensation is set by corporate insiders who enjoy discretionary power. This may call for institutional regulation. This section focuses on the role that culture may play in this setting.

In a speech given by the Governor of the Bank of England, Mark Carney, at the World Economic Forum's annual meeting in Davos, Mr. Carney stated: "[W]hile regulators ... can determine the appropriate split of remuneration between fixed and variable elements to limit risks to financial stability, only society, not regulators, can determine whether the absolute and relative levels of compensation are acceptable."[117] Like a good shepherd, Mr. Carney knows his flock. Based on in-depth interviews with U.K. FTSE100 CEOs, John Hendry observes that these CEOs emphasize values of professional achievement and competitiveness more than wealth aspects of their pay, which they don't consider as an incentive.[118] Anna Zalewska has found that in British companies, the greater the pay dispersion within the board the worse firm performance is, in contrast with findings for the U.S. - a result she relates to British boards being less individualistic and hierarchical then their American counterparts.[119]

Separately from asking whether firms pay their top executives for performance, the debate over executive compensation revolves around the question

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[116] For a survey *see* Kevin J. Murphy, *Executive Compensation: Where We Are, and How We Got There*, in HANDBOOK OF THE ECONOMICS OF FINANCE 211 (George Constantinides, Milton Harris, & René Stulz, eds., 2013).

[117] Mark Carney, Speech, Davos CBI British Business Leaders Lunch, 24 January 2014, http://www.bankofengland.co.uk/publications/Documents/speeches/2014/speech705.pdf.

[118] *See* John Hendry, CEO Pay, Motivation and the Meaning of Money, working paper (2012).

[119] *See* Anna Zalewska, *Gentlemen Do Not Talk about Money: Remuneration Dispersion and Firm Performance Relationship on British Boards*, J. EMPIRICAL FIN. (forthcoming 2014); *see* also Martin Conyon & Kevin Murphy, *The Prince and the Pauper? CEO Pay in the US and the UK*, 110 ECON. J. F640 (2000).

whether managers are paid "too much". As Carney's remarks indicate, societal stances may implicate both the level of pay and, perhaps more acutely, the relative level of executive pay in comparison to some benchmark. Cultural orientations may influence executive pay packages through the channels discussed in this chapter: first, through individual value preferences and beliefs about the "right" pay of the people who are parties to the bargain - namely, the executive herself, the board, the board's compensation committee, and compensation consultants;[120] second, through widely-shared beliefs and values about what is acceptable in executive pay, such that straying too far from that consensus would instigate public reaction adverse to the firm;[121] third, indirectly, through culturally-consistent legal regulation that affects executive pay.[122] Director networks work to disseminate information (namely, beliefs) about pay practices among connected firms.[123]

There is now substantial evidence that cultural orientations indeed associate with the structure of executive compensation, in line with the hypothesized mechanisms. Henry Tosi and Thomas Greckhamer in a pioneering study have found that total CEO pay, the proportion of variable pay to total compensation, and the ratio of CEO pay to the lowest level employee pay correlate positively with power

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[120] *See* Adam J. Wowak & Donald C. Hambrick, *A Model of Person-Pay Interaction: How Executives Vary in Their Responses to Compensation Arrangements*, 31 STRATEGIC MGMT. J. 803 (2010); *see* also Terence R. Mitchell & Amy E. Mickel, *The Meaning of Money: An Individual-Difference Perspective*, 24 ACAD. MGMT. REV. 568 (1999).

[121] *See* Camelia M. Kuhnen & Alexandra Niessen, *Public Opinion and Executive Compensation*, 58 MGMT. SC. 1249 (2012); John E. Core, Wayne Guay & David F. Larcker, *The Power of the Pen and Executive Compensation*, 88 J. FIN. ECON. 1 (2008).

[122] *See* Stephen Bryan, Robert Nash & Ajay Patel, *How the Legal System Affects the Equity Mix in Executive Compensation*, 39 FIN. MGMT. 393 (2010); Marc van Essen et al., *An Institution-Based View of Executive Compensation: A Multilevel Meta-Analytic Test*, 43 J. INT'L BUS. STUD. 396 (2012).

[123] *See* Shue, *supra* note 9; *see* also Trevor Buck & Azura Shahrim, *The Translation of Corporate Governance Changes across National Cultures: The Case of Germany*, 36 J. INT'L BUS. STUD. 42 (2005).

distance. The first two factors also related positively with individualism.[124] Greckhamer later expanded that analysis, observing more nuanced relations between configurations of cultural dimensions from Hofstede and differences in compensation level and compensation inequality.[125] Consistently with these findings, in a joint study with Siegel and Schwartz, we document negative correlations between egalitarianism and the ratio between CEO wage and average production worker wage.[126] Natasha Burns, Kristina Minnick, and Laura Starks find that CEO tournament pay structure - measured by the gap or ratio between CEO pay and the pay of the next highest-paid executives - associates positively with power distance and with measures of a society's perceived desirability of income inequality and competition from the World Values Survey.[127] Stephen Bryan, Robert Nash, and Ajay Patel examine another prominent feature of executive compensation that focuses on incentivizing executives.[128] These authors observe that while controlling for the legal environment, the relative use of equity-based compensation associates with individualism (positively) and with uncertainty avoidance (negatively) - namely, with a cultural environment that is compatible with shareholders' interests and entrepreneurship more generally.

### *F. The Board of Directors*

The board of directors is the epicenter of power relations in the corporation. It is therefore a key component in firms' corporate governance. At first glance, the

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[124] *See* Henry Tosi & Thomas Greckhamer, *Culture and CEO Compensation*, 15 ORG. SC. 657 (2004).

[125] *See* Thomas Greckhamer, *Cross-Cultural Differences in Compensation Level and Inequality across Occupations: A Set-Theoretic Analysis*, 32 ORG. STUD. 85 (2011).

[126] *See* Siegel et al., *supra* note 73.

[127] *See* Natasha Burns, Kristina Minnick & Laura Starks, CEO Tournaments: A Cross-Country Analysis of Causes, Cultural Influences and Consequences, working paper (2013).

[128] *See* Stephen Bryan, Robert Nash, and Ajay Patel, Culture and CEO Compensation, working paper (2012).

board is a universal phenomenon. Companies invariably have had boards at least since the East India Company was chartered in 1600. Doctrinally, the board of directors holds the power to manage or direct the management of the company's business. With various secondary differences, this is the law in virtually all common law jurisdictions as well as in other legal systems.[129] The OECD Principles of Corporate Governance provide a modern rendition of the board's dual mission - namely, to provide strategic advice and monitor the management.[130] Although they lack legal force and may not precisely reflect the corporate laws of all countries, the OECD Principles do reflect a universal consensus on the board's responsibilities.[131]

This image of universality may be misleading, however. When one examines national laws in more detail, numerous differences emerge, especially with regard to the structure of the board (e.g., unitary or two-tiered) and its composition (e.g., worker representation in the board).[132] Recent research indicates that formal legal differences, regardless of whether they are consequential or not, may be just the tip of the iceberg. Both the functioning of the board and its structure may also be shaped by informal, cultural orientations. This section reviews current evidence on these issues.

1. Operation: Board-CEO Relations

Of the two limbs that constitute the board's dual mission, the responsibility to monitor the management has attracted a greater deal of scholarly attention than

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[129] *See* Franklin A. Gevurtz, *The Historical and Political Origins of the Corporate Board of Directors*, 33 HOFSTRA L. REV. 89 (2004); Franklin A. Gevurtz, *The European Origins and the Spread of the Corporate Board of Directors*, 33 STETSON L. REV. 925 (2004).

[130] ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT, OECD PRINCIPLES OF CORPORATE GOVERNANCE 24 (2004) ("VI. The Responsibilities of the Board. The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders.").

[131] *See* Amir N. Licht, *State Intervention in Corporate Governance: National Interest and Board Composition*, 13 THEORETICAL INQ. L. 597 (2012).

[132] *See*, e.g., Paul L. Davies & Klaus J. Hopt, *Corporate Boards in Europe: Accountability and Convergence*, 61 AM. J. COMP. L. 301 (2013).

strategic advice has. This special interest in monitoring likely stems from the prominence of agency theory, which underscores the need to monitor corporate insiders lest they utilize their discretionary power opportunistically for their personal benefit. Other theories, however, provide different accounts of the relations between the board of directors and the top management team. These theories adopt perspectives beyond agency, including resource dependence, upper echelons, stewardship, social networks, and institutional.[133] Among the latter, several theories draw on insights from behavioral science and institutional analysis to highlight the role of values, shared beliefs, social norms, and, at bottom, cultural orientations in molding the interactions between the board and the CEO with regard to both monitoring and strategy setting.[134]

Craig Crossland and Donald Hambrick have examined the impact that formal and informal institutions exert on discretion at the top management team, particularly by CEOs.[135] Managerial discretion exists when managers can choose a line of action from a set of viable options. It is a joint product of stakeholder open-mindedness about executive actions and stakeholder inability to block objectionable actions. The scope of discretion thus is affected by what firm stakeholders perceive as possible and acceptable - in other words, on shared beliefs about "what goes with what" or what is "done" or "not done".

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[133] *See* Brian K. Boyd, Katalin T. Haynes & Fabio Zona, *Dimensions of CEO–Board Relations*, 48 J. MGMT. 1892 (2011).

[134] On the link between culture and strategy in connection with the objective of the corporation and CSR *see supra* text to note 85 *et seq*.

[135] *See* Craig Crossland and Donald C. Hambrick, *Differences in Managerial Discretion across Countries: How National-Level Institutions Affect the Degree to which CEOs Matter*, 32 STRAT. MGMT. J. 797 (2011); *see* also Craig Crossland & Donald C. Hambrick, *How National Systems Differ in Their Constraints on Corporate Executives: A Study of CEO Effects in Three Countries*, 28 STRAT. MGMT. J. 767 (2007).

Crossland and Hambrick's results indicate two underlying institutional factors ("themes") that are positively linked to managerial discretion. One factor consists of individualism and looseness; the other factor combines informal and formal institutions as well as factual circumstances - namely, uncertainty tolerance (reversed uncertainty avoidance), common law legal origin, employer flexibility, and ownership dispersion. These factors reflect the degree to which a country allows individuals to take unilateral, idiosyncratic actions and the degree to which a country tolerates bold, deviant, and risky actions.[136]

Drawing on these insights, Crossland and Guoli Chen examine the institutional factors that may lead to greater executive accountability in the form of CEO dismissal in the wake of poor financial performance.[137] These authors find that CEOs are more likely to be thus dismissed in countries where managerial discretion is higher, where financial performance measures are more meaningful, e.g., due to lower earnings management, and also where the legal system has a common law origin.

These findings weave together several threads that this paper has already identified. Corporate governance operates differently in different institutional environments in one of its most important tasks. Post-failure CEO dismissal is a particular social norm of accountability that serves to regulate agency problems in firms in a context that is notoriously resilient to formal legal regulation.[138] This norm depends on another social norm regarding managerial discretion, on yet another social norm dealing with earnings management, and on the general style of the legal system. The latter institutions in turn draw on fundamental cultural orientations that promote

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[136] The authors refer to "risk" but conceptually these institutions deal with uncertainty.

[137] *See* Craig Crossland & Guoli Chen, *Executive Accountability around the World: Sources of Cross-National Variation in Firm Performance–CEO Dismissal Sensitivity*, 11 STRATEGIC ORG. 78 (2013).

[138] [x-reference to Ch. 37 private enforcement, 40 liability standards]

entrepreneurship as they emphasize individual autonomy and tolerance of uncertainty. Thus, we have here a pyramid of norms in which each stratum interacts with and is conceptually compatible with strata above and below it.[139]

2. Composition: Board Diversity

Until not too long ago, a typical U.S. board was dominated by white, mid-fifties, wealthy male executives who were predominantly Protestant and Republican.[140] From a contemporary comparative perspective, however, boards around the world today exhibit at least some diversity in terms of non-executive (independent) members, gender composition, or employee representation, often due to legal requirements. The composition of boards has attracted special attention, and diversity in board composition is subject to heated debates.[141] Social activists have been calling for even greater gender and ethnic diversity, and policy-makers have not been oblivious to these calls, especially in Europe.[142] To paraphrase von Clausevitz on war, legal regulation of board composition has been and remains the continuation of politics by other means.[143] The political skirmishes in Europe over board diversity echo a stream in the corporate governance literature that argues that political forces have stood behind many major corporate governance reforms.[144] Legal reforms in

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139 *See* Williamson, *supra* note 32; Licht, *supra* note 10.

140 James D. Cox, *Changing Perceptions into Reality: Fiduciary Standards to Match the American Directors' Monitoring Function*, 1 BOND L. REV. 218, 218 (1989); Marleen A. O'Connor, *Women Executives in Gladiator Corporate Cultures: The Behavioral Dynamics of Gender Ego, and Power*, 65 MD. L. REV. 465, 468 (2006).

141 *See* Deborah L. Rhode & Amanda K. Packel, Diversity on Corporate Boards: How Much Difference Does Difference Make?, Rock Ctr. for Corp. Governance, Working Paper No. 89 (2010).

142 For EU initiatives *see* Deirdre M. Ahern & Blanaid J. Clarke, Listed Companies' Engagement with Diversity: A Multi-Jurisdictional Study of Annual Report Disclosures, ECGI Law Working Paper 221 (2013).

143 *See* Licht *supra* note 131.

144 *See* MARK J. ROE POLITICAL DETERMINANTS OF CORPORATE GOVERNANCE (2003); PETER GOUREVITCH & JAMES SHINN, POLITICAL POWER AND CORPORATE CONTROL: THE NEW GLOBAL POLITICS OF CORPORATE GOVERNANCE (2005); *see* also [Ch 3 politics].

Europe with regard to gender diversity in fact were not confined to boards but have also encompassed political parties.

Culture's role in shaping board composition should be analyzed against this backdrop. Extensive research, both theoretical and empirical, shows that the ways boards fulfill their mission are endogenous. What the board in fact does and the how it is structured in a particular firm may be both a cause and an outcome of other factors, including the firm's industry, its stage of development, its financial needs, the individuals at the top management team and the board itself, and so forth.[145] Informal institutions would be a potentially important part of this setting - again, functioning both as constraints and as motivators ("isomorphic pressures" in the sociological parlance) for molding board composition to accommodate shared values and beliefs.

From a comparative vantage point, cultural orientations thus stand out as factors that may exert a differential effect on board composition in different countries. For example, a cultural emphasis on egalitarianism likely will buttress social norms on gender equality that would facilitate higher female presence on boards as well as in other institutions - e.g., parliaments. Western Europe indeed provides a good example for such an institutional environment, as it scores particularly high on egalitarianism on average and boasts several interventionist pro-gender-diversity initiatives. Similarly, higher egalitarianism may encourage employee representation in boards as a constituency that is also vulnerable to firm performance, in addition to shareholders.

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[145] *See* Benjamin E. Hermalin & Michael S. Weisbach, *Endogenously Chosen Boards of Directors and Their Monitoring of the CEO*, 88 AM. ECON. REV. 96 (1998); *see* also Renée B. Adams et al., *The Role of Boards of Directors in Corporate Governance: A Conceptual Framework and Survey*, 48 J. ECON. LIT. 58 (2010); Scott G. Johnson, Karen Schnatterly & Aaron D. Hill, *Board Composition Beyond Independence: Social Capital, Human Capital, and Demographics*, 39 J. MGMT. 232 (2013).

Western Europe again comes to mind.[146] In societies that emphasize entrepreneurship more, which would be reflected in higher individualism, lower uncertainty avoidance, and lower harmony, we would expect board composition to be aligned with (outside) shareholder interests - e.g., by having more independent directors.

Plausible as these hypotheses may seem, relatively little research thus far has addressed the role that culture might play in determining board composition. Jiatao Lee and Richard Harrison find that the percentage of outside directors in boards of multinational firms from 15 countries correlates positively with uncertainty avoidance, individualism, femininity, and power distance.[147] (Except for femininity, similar links were observed for a tendency to consolidate the CEO and Chair positions.) Consistent with the view of boards as endogenous institutions, these findings suggest that the structure of the corporate leadership body also conforms to cultural orientations. These authors did not control for legal requirements, however. That the observed correlations differ from those hypothesized above may suggest that in the sample firms, outside directors do not care solely for outside shareholders but rather for a broader set of stakeholders, who might be less enthusiastic about entrepreneurial strategies.

Johanne Grosvold reports that the percentage of women in the boards of firms from some 50 countries correlates positively with power distance and negatively with uncertainty avoidance, controlling for a set of country- and firm-level factors though not for legal ones.[148] Grosvold and Stephen Brammer separately examine national

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[146] *See* ALINE CONCHON, BOARD-LEVEL EMPLOYEE REPRESENTATION RIGHTS IN EUROPE: FACTS AND TRENDS, EUROPEAN TRADE UNION INSTITUTE REPORT (2011)

[147] *See* Jiatao Lee & J. Richard Harrison, *National Culture and the Composition and Leadership Structure of Boards of Directors*. 16 CORP. GOVERNANCE: INT'L REV. 375 (2008).

[148] *See* Johanne Grosvold, *Where Are All the Women? Institutional Context and the Prevalence of Women on the Corporate Board of Directors*, 50 BUS. & SOC. 531 (2011).

average percentages of women on boards across regions classified by culture, legal origin, or other institutions.[149] Although these authors claim that cultural and legal factors appear to play the most significant role in shaping board diversity, their findings do not lend themselves to coherent interpretation.

3. Structure: Director Networks

In recent years, there has been a flurry of studies on corporate governance and social capital as embodied in social networks. Research thus far has focused on director networks, in which board members also serve as CEOs or as board members in additional companies.[150] It appears that director networks work as advertized, according to social capital theory, to facilitate information exchange as well as mutual commitment and trust.[151] In some cases this may prove helpful for attaining strategic resources such as information on growth opportunities or outside managerial talent.[152] More extensively-connected, and hence more powerful, independent directors are economically and statistically positively correlated with shareholder valuations,

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[149] *See* Johanne Grosvold & Stephen Brammer, *National Institutional Systems as Antecedents of Female Board Representation: An Empirical Study*, 19 CORP. GOVERNANCE: INT'L REV. 116 (2011).

[150] For a survey *see* Luc Renneboog & Yang Zhao, *The Governance of Director Networks*, in THE OXFORD HANDBOOK OF CORPORATE GOVERNANCE 200 (Mike Wright et al., eds 2013); *see* also Johnson et al., *supra* note 145.

[151] *See*, e.g., Christa H. S. Bouwman, *Corporate Governance Propagation through Overlapping Directors*, 24 REV. FIN. STUD. 2358 (2011); Fabio Braggion, *Managers and (Secret) Social Networks: The Influence of the Freemasonry on Firm Performance*, 9 J. EUR. ECON. ASS'N. 1053 (2011); Cesare Fracassi, Corporate Finance Policies and Social Networks, working paper (2012); Shue, *supra* note 9.

[152] *See*, e.g., Luc Renneboog & Yang Zhao, *Us Knows us in the UK: On Director Networks and CEO Compensation*, 17 J. CORP. FIN. 1132 (2011); Joanne Horton, Yuval Millo & George Serafeim, *Resources or Power? Implications of Social Networks on Compensation and Firm Performance*, 39 J. BUS. FIN. & ACTG. 399 (2012); David F. Larcker, Eric C. So & Charles C.Y. Wang, *Boardroom Centrality and Firm Performance*, 55 J. ACTG. & ECON. 225 (2013); Benjamin Balsmeier, Achim Buchwald & Stefan Zimmermann *The Influence of Top Management Corporate Networks on CEO Succession*, 7 REV. MGMT. SC. 191 (2013); Thomas C. Omer, Marjorie K. Shelley & Frances M. Tice, When Do Well-Connected Directors Affect Firm Performance?, working paper (2013); *see* also Luc Renneboog & Yang Zhao, *Director Networks and Takeovers*, J. CORP. FIN. (forthcoming 2014).

possibly because more socially powerful independent directors have better information and more influence.[153]

The upshot may also be detrimental to the interest of the company and of its outside shareholders, however. Several studies have associated more extensive director interlocks with higher CEO pay and with less performance-sensitive CEO pay and tenure, indicating reduced monitoring.[154] Among other things, social acquaintances may engender these adverse effects through compromising the efficacy of formally-though-not-actually independent directors[155] or through propagation of bad practices such as option backdating.[156]

Assessing the relations between culture and board structure in terms of social network configuration begins with the observation that social networks undergird groups. Social networks constitute one's location in the group and one's linkages with other group members. Social networks, however, are merely a structural concept, devoid of content meaning, shorn of any normative implications. In the corporate governance context of board structure, individual board members have power that calls for social regulation. They can follow several lines of action that

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[153] *See* Kathy Fogel, Liping Ma & Randall Morck, Powerful Independent Directors, working paper (2014).

[154] *See*, e.g., Renneboog & Zhao, *supra* note 152; Erik Devos, Andrew Prevost & John Puthenpurackal, *Are Interlocked Directors Effective Monitors?*, 38 FIN. MGMT. 861 (2009); Rayna Brown et al., *What are Friends for? CEO Networks, Pay and Corporate Governance*, in CORPORATE GOVERNANCE: RECENT DEVELOPMENTS AND NEW TRENDS 287 (Sabri Boubaker et al. eds. 2012); Bang Dang Nguyen, *Does the Rolodex Matter? Corporate Elite's Small World and the Effectiveness of Boards of Directors*, 58 MGMT. SC. 236 (2012); Amir Barnea, Cesare Fracassi & Ilan Guedj, Director Networks, working paper (2013); Joseph Engelberg, Pengjie Gao & Christopher A. Parsons, *The Price of a CEO's Rolodex*, 26 REV. FIN. STUD. 79 (2013).

[155] *See* Byoung-Hyoun Hwang & Seoyoung Kim, *It Pays to Have Friends*, 93 J. FIN. ECON. 138 (2009); *see* also Udi Hoitash, *Should Independent Board Members with Social Ties to Management Disqualify Themselves from Serving on the Board?*, 99 J. BUS. ETHICS 399 (2011).

[156] *See*, e.g., John Bizjak, Michael Lemmon & Ryan Whitby, *Options Backdating and Board Interlocks*, 22 REV. FIN. STUD. 4821 (2009); Cesare Fracassi & Geoffrey Tate, *External Networking and Internal Firm Governance*, 67 J. FIN. 153 (2012); Vikramaditya S. Khanna, E. Han Kim & Yao Lu, CEO Connectedness and Corporate Frauds, working paper (2013).

may sustain multiple equilibriums. This is where culture comes into play. When one is embedded in a particular cultural environment, one takes for granted "what goes with what" in light of the values and beliefs that one shares with other societal members. Holding a position with a high level of centrality in a network of board members or being located in a structural hole of such a social network thus may entail different implications in different cultures. In sum, social capital is culturally-contingent also for board members.

The relations between the individual and the group are the primary issue that every society needs to address. Societal stances on this issue consitute the most fundamental social institution. These stances are captured by their location on Hofstede's individualism/collectivism dimension and in Schwartz's autonomy/embeddedness. The autonomy/embeddedness and individualism/collectivism dimension overlap conceptually to a degree. Both concern relations between the individual and the collective and both contrast an autonomous with an interdependent view of people. However, the dimensions also differ. For instance, individualism implies self-interested pursuit of personal goals while selfishness is not a characteristic of cultural autonomy. Collectivism more than embeddedness highlights ingroup boundaries as delineating the scope of unquestioning loyalty. The correlation between these dimensions is substantial but far from complete.[157]

Research on culture's consequences for social networks is in its infancy at this stage. Scholars have pointed out the importance of individualism vs. collectivism for social network analysis, contrasting Western (usually North American) culture with

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[157] *See* Schwartz 2006, *supra* note 41. There is less conceptual overlap between other dimensions of the two frameworks.

East Asian (usually Chinese) culture. A related concept is the very elaborate set of relational norms known as *guanxi*, which traces its roots to Confucian philosophy and calls on individuals to cultivate the right *guanxi* through extensive, continuing exchanges.[158] For instance, the scope of people that one might trust seems to be substantially narrower in Confucian countries than in Western countries.[159] This is consistent with a collectivist view of ingroup members only as trustworthy, whereas people in individualistic cultures are less likely to hold such a bifurcated view of "most others" for purposes of the "generally speaking question" on trust.[160]

Business organization scholars are beginning to investigate whether the wisdom of social capital in terms of centrality and structural holes (or similar concepts from the current terminological thicket) applies equally in collectivist cultures.[161] The basic idea, as Zhixing Xiao and Anne Tsui put it, is that "[p]eople who stay at the boundary of two ingroups tend to be distrusted by both groups - both ingroups are likely to regard them as outgroup members who do not deserve ingroup treatment… Simple and dense networks that represent clear group membership, rather than networks full of structural holes, constitute resources for social actors."[162]

Applying these insights to corporate governance implications of board structure may require careful consideration before extant evidence of the sort mentioned above could be extended to other cultural settings. In doing so, attention

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[158] *See* Chen et al. *supra* note 4.

[159] *See* Jan Delhey, Kenneth Newton & Christian Welzel, *How General Is Trust in "Most People"? Solving the Radius of Trust Problem*, 76 AM. SCOIOL. REV. 785 (2011).

[160] *See supra* text to note 49.

[161] *See* Johnson et al., *supra* note 145; Sun-Ki Chai & Mooweon Rhee, *Confucian Capitalism and the Paradox of Closure and Structural Holes in East Asian Firms*, 6 MGMT. & ORG. REV. 5 (2009).

[162] Zhixing Xiao & Anne S. Tsui, *When Brokers May Not Work: The Culture Contingency of Social Capital*, 52 ADMIN. SC. Q. 1, 5 (2007); *see* also Rong Ma, Yen-Chih Huang & Oded Shenkar, *Social Networks and Opportunity Recognition: A Cultural Comparison between Taiwan and the United States*, 32 STRAT. MGMT. J. 1183 (2011); compare Jennifer Merluzzi, *Social Capital in Asia: Investigating Returns to Brokerage in Collectivistic National Cultures*, 42 SOC. SC. RES. 882 (2013).

should be paid to the dual mission of the board - namely, of strategic advice and of monitoring. The strategy task revolves around board members serving as sources of out-of-firm information and similar resources thanks to external background or linkages. The monitoring task crucially hinges on a certain detachment between directors - especially independent directors - and firm insiders. As the very notion of being "independent" or "external" entails different repercussions in cultures high on collectivism and embeddedness, we should expect such directors to fulfil their tasks differently. Furthermore, since boards are endogenous institutions, we should expect their composition too to reflect the different cultural environment. Outside board members with multiple directorships may not be able to provide valuable information because nobody will supply them with such information, which is reserved for ingroup members. The Japanese family firm practice of adopting adult executives suggests the extent to which societies might go to "familiarize" managers with the firm and its controlling shareholders.[163] On the other hand, such board members might prove to be better monitors if they feel less pressure to socialize within the firm and become part of the ingroup.[164]

The above conjectures are preliminary hypotheses that warrant further theoretical development and empirical testing. In tandem, these cultural differences call for careful assessment of legal measures intended to improve corporate governance by imposing "true and tested" fiduciary duties inspired by common law sources.[165] A standard common law duty of loyalty requires any fiduciary, directors included, in the strongest of terms, to act in absolute disinterestedness. Practical

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[163] *See supra* text to note 61.

[164] *See* Yunsen Chen, Yutao Wang & Le Lin, *Independent Directors' Board Networks and Controlling Shareholders' Tunneling Behavior*, CHINA J. ACTG. RES. (forthcoming 2014).

[165] *See* supra text to note 5 *et seq.*.

issues of implementation aside, such a duty is premised on a view of people as autonomous entities, in line with cultural individualism and autonomy. Such a legal duty may not sit well with a social norm of *guanxi* in a board whose members maintain extensive relations with other members in the company.

## V. CONCLUSION

This chapter has surveyed the literature on culture, law, and corporate governance with a view to establishing the importance of considering both formal (legal) and informal (cultural) institutions in the analysis of corporate governance systems. It is hoped that that goal has been met with some success. In an early paper that called for adopting the cultural value dimension framework for such analyses I referred to culture as "the mother of all path dependencies".[166] The body of scholarship that has since accumulated seems to support the contention made at that time: "At the risk of stretching the mother metaphor a little bit, it can be argued that culture may indeed be perceived as an old mother. It knows a lot, but some of this knowledge might be obsolete today; it is sometimes nagging; it will resist change unless absolutely required. Most importantly, it must not be ignored."

More work can be done toward revealing additional facets of the relations between corporate governance and culture. Institutional environments in Asia (again, think China) and even in Europe differ markedly from those that prevail in English-speaking countries. Understanding these environments will help policy- and law-makers to develop corporate governance systems more effectively. To achieve this goal we will need to advance our knowledge beyond observing correlations of the sort that was reviewed here toward a more elaborate understanding of the relations

[166] Licht, *supra* note 58, at 204.

between law and culture. Looking to the road ahead, it is fitting to conclude this chapter with a contemporary quote from Michael Bond, who, together with Hofstede and Schwartz, is among the founders of modern cross-cultural research:

> Hypothesizing that this or that Chinese population should be higher (or lower) than mainstream Western norms on this or that construct because this particular Chinese societal context is higher (or lower) than that other comparison context on Hofstede's, House's, Schwartz's, Inglehart's, or Leung and Bond's national-level 'cultural' dimension of X will not make the cut – there are simply too many ways to challenge such results, even if confirmed... This kind of simplistic, straightforward work informed the earlier cataloguing period of diverse phenomena, which was characterized as the 'Aristotelean' era of the cross-cultural discipline... That was a time for documenting differences in organizational phenomena across cultural groups, a time for establishing the potential of the cross-cultural enterprise. That agenda was met and, in our opinion, that time has now passed.[167]

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[167] Michael Harris Bond & Miriam Muethel, *Doing Better Research on Organizational Behaviour in Chinese Cultural Settings: Suggestions from the Notebooks of Two Fellow-Travellers*, 8 MGMT. & ORG. REV. 455, 457-458 (2011).

## Tables and Figures

Table 1. The Hofstede Cultural Value Dimensions

| | |
|---|---|
| **Individualism/ Collectivism** | Valuing loosely knit social relations in which individuals are expected to care only for themselves and their immediate families versus tightly knit relations in which they can expect their wider in-group (e.g., extended family, clan) to look after them in exchange for unquestioning loyalty; |
| **Power Distance** | Accepting an unequal distribution of power in institutions as legitimate or illegitimate |
| **Uncertainty Avoidance** | Feeling uncomfortable or comfortable with uncertainty and ambiguity and therefore valuing or devaluing beliefs and institutions that provide certainty and conformity. |
| **Masculinity/ Femininity** | Valuing achievement, heroism, assertiveness, and material success versus relationships, modesty, caring for the weak, and interpersonal harmony. |
| **Long-Term Orientation** | Having a long-term time orientation; emphasizing Confucian work ethics such as thrift and persistence. |

Table 2. The Schwartz Cultural Value Dimensions

| | |
|---|---|
| **Embeddedness/ Autonomy** | This dimension concerns the desirable relationship between the individual and the group. Embeddedness represents a cultural emphasis on maintenance of the status quo, propriety, and restraint of actions or inclinations that might disrupt the solidary group or the traditional order. The opposite pole describes cultures in which the person is viewed as an autonomous, bounded entity who finds meaning in his or her own uniqueness. |
| **Hierarchy/ Egalitarianism** | This dimension refers to guaranteeing responsible behavior that will preserve the social fabric. Hierarchy represents a cultural emphasis on obeying role obligations within a legitimately unequal distribution of power, roles, and resources. Egalitarianism represents an emphasis on transcendence of selfish interests in favor of voluntary commitment to promoting the welfare of others. |
| **Mastery/ Harmony** | This dimension refers to the relation of humankind to the natural and social world. Mastery stands for a cultural emphasis on getting ahead through active self-assertion whereas Harmony represents an emphasis on fitting harmoniously into the environment. |

Figure 1. The Williamson Model of Social Institutions

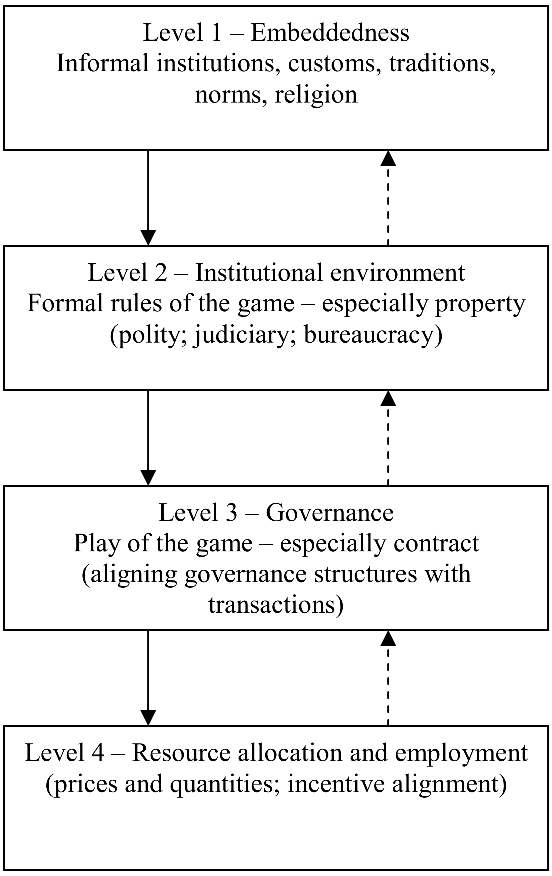
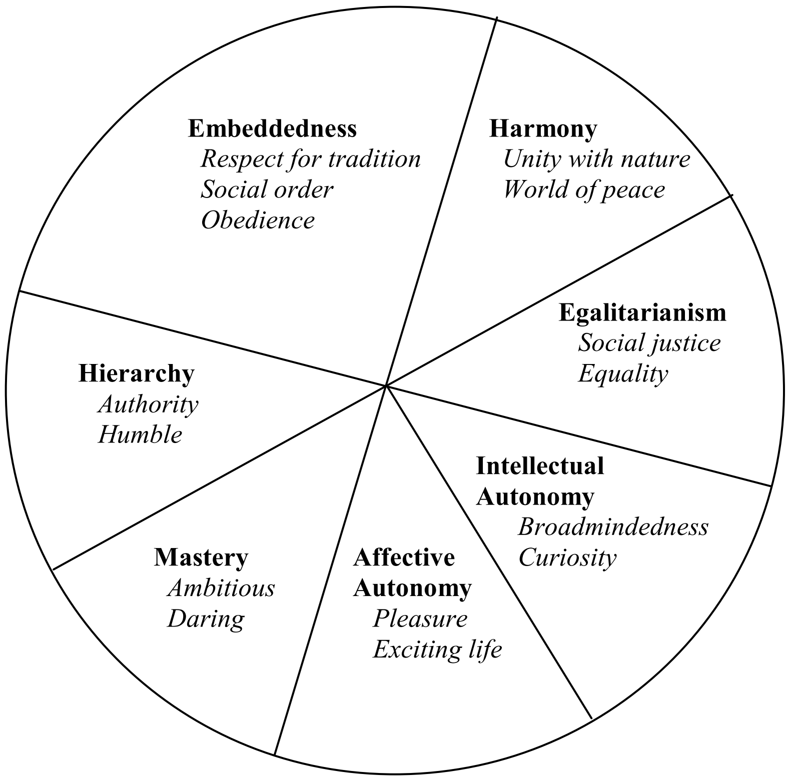


Figure 2. The Schwartz Model of Relations among Cultural Orientations



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