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# The Transnational Political Economy of Corporate Governance Regulation: A Research Outline

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## Abstract

Corporate governance has become a buzzword of the global business community and is now receiving even wider attention given the repercussions of the Enron collapse. Although there is a burgeoning literature on this topic, the bulk of it is either highly *normative* or focused on corporate governance *practices* at the level of the firm. In contrast, our aim is to *explain* the current transformations of corporate governance *regulation*. Whereas this regulation used to be a distinctly national affair, it is now increasingly an area subject to both public and private (self-) regulation *in multiple arenas*, of which three are outstandingly important as well as closely interrelated and, therefore, form the empirical focus of the programme:

- *Europeanisation* in the area of corporate governance regulation affects national regimes of corporate governance with a particular historical diversity, without entirely replacing them.
- The EU, furthermore, does not operate in a vacuum but in a transatlantic and global context where it has to negotiate its choices with both state (mainly the US) and non-state actors. At the global level, private bodies such as the International Accounting Standards Board set many corporate governance standards, and international organisations like the OECD disseminate norms for *good corporate governance*.
- Central and East European countries (CEEC) are exposed to the multiple (and partially conflicting) demands by global institutions and the EU when developing their corporate governance structures.

All three projects focus on our central research question: *What explains the transformation of corporate governance regulation at different levels, and through varying modes, of governance?* We will draw on two bodies of existing theory, i.e. the *transnational political economy approach* and the *resource dependency theory on transnational policy networks*. This programme aims to combine the strong empirical focus on institutional forms of the latter with the strong explanatory potential in terms of structural forces and power relations of the first. The paper gives a first outline of the research design.

This paper is based on a grant proposal to the Netherlands Organisation for Scientific Research (NWO) for a four year programme entitled ‘The transnational political economy of corporate governance regulation’, which was awarded in September 2003. Details of the NWO programme *Shifts in Governance* (the context in which this grant has been awarded) can be found on the NWO website ([www.nwo.nl](http://www.nwo.nl)). The applicants were the authors of this Working Paper, in collaboration with Professor Jan Klaassen RA, the Dean of the Faculty of Economics and Business Administration of the *Vrije Universiteit Amsterdam*.

## 1. Introduction

Corporate governance – which can be defined as the way a company is ‘governed’, for which purpose and to whose benefit – has in the 1990s become a buzzword of the global business community. It is now receiving even wider attention given the worldwide repercussions of the Enron collapse and other recent corporate scandals, which have demonstrated the considerable social and political impact of deficient corporate governance regulation. A further erosion of public trust in corporate governance arrangements, it is feared, may in fact trigger a fundamental economic crisis. Moreover, the noted role of both *private* actors and international organisations – that is next to democratically elected governments – in the regulation of corporate governance raises considerable problems of legitimacy and accountability. In this context, corporate governance is an important object of ongoing debate, both in the European (for instance with respect to the controversial take-over directive) and the transatlantic arenas (for instance around the possible adoption of so called International Accounting Standards ).

Although it remains to be seen in which direction the regulatory reforms that are now called for in the wake of these scandals would take us (Hopt 2002), it is clear that already long before Enron, the regulation of corporate governance – which is at the heart of the way capitalism is organised in modern societies – has been in a process of major transformation within different socio-economic settings. Whereas the regulation of corporate governance used to be a distinctly national affair, it is now increasingly an area subject to both public and private (self-)regulation *in multiple arenas*, of which three are outstandingly important as well as closely interrelated:

- *Europeanisation* in the area of corporate governance regulation affects national regimes of corporate governance with a particular historical diversity, without entirely replacing them.
- The EU, furthermore, does not operate in a vacuum but in a transatlantic and global context where it has to negotiate its choices with both state (mainly the US) and non-state actors. At the global level, private bodies such as the International Accounting Standards Board set many corporate governance standards, and international organisations like the OECD disseminate norms for *good corporate governance*.
- Central and East European countries (CEEC) are exposed to the multiple (and partially conflicting) demands by global institutions and the EU when developing their corporate governance structures.

The discussion on the political economy of corporate governance is situated in two broader contexts. First, corporate governance regulation has been one of the issues touched on in the debate on globalisation and the possible convergence of (national) *varieties of capitalism*. According to some observers, especially within the field of international and comparative political economy, these regulatory changes within multiple arenas of governance point to a convergence on the so called Anglo-Saxon model of capitalism and away from the Rhineland model and other models of ‘co-ordinated capitalism’ (Hall and Soskice 2001; Crouch and

Streeck 1997; Rhodes and Van Apeldoorn 1998). To what extent can we indeed observe such a transformation and convergence of corporate governance regulation? What explains both the form and the content of these regulatory changes?

Second, we build upon but at the same time move beyond the global governance (Held and McGrew 2002, Hewson and Sinclair 1999) and the multilevel governance (Hooghe and Marks 2001) literatures, especially by highlighting the interplay of global and European governance arenas. Although there is now a burgeoning academic literature on corporate governance, there is in fact surprisingly little research available addressing the above questions in a systematic way, especially, which we would suggest is crucial, *across different but interrelated levels of governance*. In fact much of the literature is either highly *normative* or focused on corporate governance *practices* at the level of the firm. This paper, in contrast, seeks to go beyond this by outlining a research agenda aimed at *explaining* the current transformations of corporate governance *regulation*. In our approach, to be detailed below, we hope to overcome the shortcomings of the existing bodies of literature. We focus on the autonomous agency of private actors and this will enable us to move beyond simplistic and deterministic accounts of globalisation. Moreover, as our approach also highlights the interplay of private and public governance we hope to offer new insights into this critical aspect of the current ‘shifts in governance’.

The paper will be structured as follows. Section 2 briefly reviews the relevant literature on corporate governance regulation. Section 3 then presents the core questions and approach of our own research agenda. Section 4 outlines how the central research questions will be addressed through three interrelated research projects. Section 5 concludes the paper with a statement of what we hope to achieve with this research.

## **2. State of Empirical Research on Corporate Governance Regulation**

The growing volume of research relating to changing corporate governance regulation may roughly be divided into two different types of literature:

- Literature with a highly normative (implicit or explicit) orientation, especially in law but also in economics and business studies;
- Literature in which regulation is an independent variable and which is often based on research of one or two national cases (whose corporate governance practices then form the dependent variable);

The literature within legal studies is usually the most explicit in its normative agenda. Some authors argue in favour of giving more voice to stakeholders (e.g. Ireland 1996; Deakin 2002). Others, indeed a majority, focus on the question of how to enhance (legally) the (*property*) rights of shareholders (see, e.g., Baums and Scott 2003), especially so-called minority shareholders such as institutional investors (see, e.g., Black 1992; Baums et al. 1994). Though the legal

research on corporate governance sometimes claims to be explanatory, it is in reality descriptive and often prescriptive. An illustration may be found in an often quoted paper which predicts the convergence of corporate law around the primacy of shareholder interests on the basis of the ‘ideological and competitive attractions’ of this model, forming the basis of a normative consensus leading to an inevitable ‘end of history for corporate law’ (Hansmann and Kraakman 2000: 32). Though some of this literature is comparative, most of it is focused on the US, reflecting that country’s longer history of shareholder activism, and, recently, the impact of Enron and the legal reforms (especially the Sarbanes-Oxley Act) that have been undertaken in response (e.g., Coffee 2003)

Although purportedly intended to *explain* the varied behaviour of firms and the varied performance of economies under different systems of corporate governance, much work in the economics discipline is (implicitly) rather normative in orientation too. Especially so called *agency theory* is based on the highly normative assumption that a firm is no more than a piece of property owned by its shareholders (Jensen and Meckling 1976; Jensen 1993; Schleifer and Vishny 1996) whose rational interest is to maximise the cash flow – i.e. shareholder value (Rappaport 1986) – flowing from those property titles. Any institutional arrangement that makes managers, as the agents of the shareholders, behave in a way that does not maximise the interest of the principal, for instance by seeking to serve other interests (e.g. of employees or of long-term survival of the firm) as well, is therefore considered as a problem.

The second body of literature, which attempts to move beyond abstract modelling and normative proclamations and actually explain things but still takes regulation largely as an independent variable, is to be found both within law and within the social sciences. Within the former, the best-known example of this type of research is the work of Mark Roe (1994) with his study on the political roots of a US managerial capitalism of ‘strong managers and weak owners’. Next to these more politico-legal and historical enquiries (almost all of which focus on the US) into why corporate governance practices (including the performance of these systems) have developed the way they have, there is also a growing number of more micro-level and quantitative studies that seek to analyse corporate governance practices *at the level of the firm*. Here especially research on German corporate governance that has come out of the Max Planck Institute in Cologne may be mentioned (Höpner 2001; Goyer 2002; for an overview see Streeck 2001). This research is path breaking to the extent that such firm-level research was notably absent from the field before and in fact is critical in helping to understand to which extent and how corporate governance regimes are actually changing ‘on the ground’. Indeed, we recognise that ultimately the *practice* of corporate governance is what counts, and hence acknowledge the significance of such research. Nevertheless, it is also clear that in this type of research the regulatory environment can only be treated as an independent variable that as such remains unexplained. Shifting the focus, then, we seek to explain the changing corporate governance *regulation* that is the legal and regulatory framework that in part shapes the practice of corporate governance.

Inasmuch as scholars have tackled the theme of corporate governance *regulation*, their studies are more conceptual and/or exploratory rather than providing solid research findings, especially beyond single national case studies. With regard to the conceptual level, the political science literature has been especially useful in contributing to the development of a typology of competing (national) regimes of corporate governance. Particularly useful is the distinction between the so called ‘shareholder model’ of the ‘Atlantic’ (Anglo-Saxon) capitalist economies premised on the sovereignty of shareholders exercising their power through the stock exchange – constituting a market for corporate control – on the one hand, and the stakeholder model prevalent in most continental European capitalist economies (and in particular within the so called ‘Rhineland’ countries), in which the firm and its management are more embedded in a *network of interests*, on the other (see, e.g., Rhodes and Van Apeldoorn 1998; De Jong 1996; Dore et al 1999; Vitols 2001; see also Albert 1993). The limited empirical research that is available concentrates on the question of convergence of *national* models of corporate governance regulation and is either sceptical towards the convergence thesis (e.g., Vitols 2001), or seems to adopt that thesis rather uncritically (e.g. O’Sullivan 2000a). In neither case, however, does the evidence appear to be conclusive. Moreover, this research does not (explicitly) take into account levels of governance beyond that of the nation-state. Inasmuch as this has been done (e.g. Rhodes and Van Apeldoorn 1998; Lannoo 1999) much more extensive research is needed.

We may thus conclude that in the existing bodies of literature one cannot find a systematic analysis of the political and economic determinants of the regulatory environment of corporate governance at different and interacting levels of governance. Hence, in the next section we argue the need for the development of a coherent political economy framework that will enable us to undertake such a research.

### **3. Towards a Transnational Political Economy of Multi-level Corporate Governance Regulation: Questions and Approach**

In contrast to the normative orientation, our aim – though recognising the important normative dimension of the subject matter - is to *explain* the current transformations of corporate governance regulation. In order to come to a fuller understanding of what is driving the current transformation of corporate governance it is crucial to also analyse the *politics* of corporate governance regulation. Which political processes drive the current transformation of corporate governance at different levels of governance? Which political and socio-economic actors are involved; what are their interests, and how are relations of power between them configured?

We argue that in order to capture the multi-level phenomenon of changing corporate governance regulation, we have to move beyond national case studies or cross-national comparisons and adopt instead an integrated *transnational* approach in which we examine how corporate governance regulation is changing through interacting levels of governance and within different arenas. From this perspective, we formulate the following research question:

*What explains the transformation of corporate governance regulation at different levels, and through varying modes, of governance?*

This central question gives rise to three sets of sub-questions:

- *What* changes in the regulation of management–shareholder relations can we observe in different arenas (global, EU, CEEC), and do these changes reveal convergence on a particular model or rather a continuing or increased institutional diversity?
- *How*, or through what modes of regulation and at which levels of governance do these changes take place? Are there significant *shifts in governance*: from public to private and from the national to the European or global levels?
- *Why is this so?* What explains both the changing content of corporate governance regulation and the changing form through which it takes place?

### *Theoretical and Analytical Approach*

Inasmuch as the current literature in fact deals with the question of why corporate governance regulation is changing – whereby the assumption is often that it is converging on the Anglo-Saxon model – the conventional answer tends to be that it is driven by economic globalisation understood as apolitical market selection process (cf. O’Sullivan 2000a; Cioffi 2000; Vitols 2001). Such an explanation in our view would be too simplistic as it ignores the fact a) that the globalisation of markets itself is being enabled by changing state (de-) regulation, and b) that the policies formulated in response to market globalisation are the outcome of political struggles which are not predetermined but in which different interests and preferences compete for dominance.

Rather than reducing explanations to exogenous globalisation pressures, we seek to recognise the underlying interests of concrete socio-economic groups such as managers, (various categories of) shareholders and employees. Within the context of globalisation relevant actors increasingly operate on a transnational plane, and governance – public and private – shifts towards new and multiple levels. Transnational actors mediate between these different levels and link globalisation with European and national forms of change (Van Apeldoorn 2002). The various actors - with often diverging interests and thus engaged in political struggle – are in turn influenced by structural factors at different levels, from economic globalisation to the socio-economic and political institutions of a particular state. The topic of corporate governance in particular seems to call for such an integrated approach. It refers both to the governance of corporations at the level of the corporations themselves and to the *public* governance (regulation) that sets the legal framework within which corporate governance practices are situated. In addition it furthermore refers to the self-regulation or private governance that flows from private international forums.

The regulation of corporate governance moreover increasingly takes place at different but interacting levels: at the global level through bodies like the OECD and the World Economic Forum, at the European level - where, in addition to the process of financial market integration, attempts are undertaken to harmonise relevant company law -, and at the national level - where we still find much country-specific regulation, albeit challenged by the governance efforts at these other levels. In other words, the changing nature of corporate governance regulation is a *transnational* and multi-level phenomenon by definition and therefore in our view also requires a transnational approach that recognises how the different levels, regions and (public/private) forms of governance are interrelated.

Here we draw on two existing theoretical approaches, the *transnational political economy approach* (Van Apeldoorn, Overbeek and Ryner 2003, Overbeek 2003), and the *resource dependency theory on transnational policy networks* (Nölke 2003a, 2003b, 2003c). This programme aims to combine the strong empirical focus on institutional forms of the latter with the strong explanatory potential in terms of structural forces and power relations of the first.

What both of these approaches share – contra to state-centric approaches – is their stress on the fundamental transnational dimension of contemporary politics (see Overbeek 2003; Nölke 2003c; van Apeldoorn forthcoming). We seek to conceptualise the transnational in terms of both *structure* and *agency*. With regard to the latter we conceive of transnational actors as transcending the territoriality of national states, whilst at the same time stressing that this does not mean that their agency no longer takes place in *any* national context, rather it does not take place in any *single* national context, *but on different levels of governance*. Indeed, transnationalism by definition is a multi-level phenomenon. With regard to structure, we emphasise how transnational socio-economic structures shape the agency of both national and transnational actors, where the latter in particular are also influenced by the transnational institutional and organisational setting in which they operate.

The specific contribution of the resource dependency approach lies in the fact that it provides an alternative to conventional theories of international relations and international political economy in that it gives considerable space to the activities of private actors. Moreover, building upon (but going beyond) earlier theories of transnational relations (Keohane and Nye 1971, Risse-Kappen 1995) and multi-level governance (Marks, Hooghe and Blank 1996, Marks and Hooghe 2001), it offers a rather precise analytical framework that is able to capture cross-border political processes that defy the conventional government-centric model. At the core of the (transnational) policy network approach is the (transnational) co-operation of public and private actors for policy design and implementation, based on inter-organizational resource dependencies. These networks link different levels of governance, be they supranational, national or subnational ones. Their relevance depend on the allocation of resources between organizational actors, such as national ministries, international secretariats and interest groups. Resource allocations are very much influenced by the network context, both in its institutional and structural dimensions.

Whereas the resource dependency approach is able to analytically capture the complex interplay of different actors within the transnational political economy of corporate governance regulation, its rather abstract and a-historical character is too limited for a comprehensive explanation of these regulations. Although the resource dependency approach focuses on the interplay between inter-organizational dynamics and network context, it is unable to locate this context in a broader historical dynamic. Furthermore, its focus on organizational resource attributes favours a relational power approach, thereby underplaying the structural dimension of power. This is where the transnational political economy approach has its comparative advantages. Although lacking operational precision for a detailed analysis of the political economy of individual regulation processes, it provides a comprehensive perspective that allows for the situation of these micro-processes in the overall development of capitalist state-society relations within the current world order. By focusing on the development and consolidation of hegemonic transnational *class* strategies, it captures both the structural dimension of power – as inherent in the social relations of capitalist production – as well as the fundamental role of agency in reproducing those structural inequalities.

### *Empirical focus of research*

We define corporate governance broadly as the rules and practices governing the power relations between the various stakeholders in the modern corporation: shareholders, creditors, managers, workers, then state and elements of society at large (cf. Jackson 2001, Hopt et al. 1999: 5, O’Sullivan 2000a: 1). Within the broader institutional configuration three sets of relations can be deemed central: those between management and owners (‘shareholder relations’), those between management and workers (‘employee relations’) and those between corporation and civil society and the state (‘societal relations’). In order to delimit its empirical scope, the focus of the research programme is on *shareholder relations*.

Relations between shareholders and management are central to the struggle over ownership and control, which is at the heart of corporate governance ( Becht et al 2002; O’Sullivan 2000b; Berle and Means 1991). Indeed, in the US the efforts to undo what Berle and Means (1991) have identified as the separation of ownership and control – a ‘shareholder revolt’ as reflected by the ideology of shareholder value (Lazonick and O’Sullivan 2000; cf. Rappaport 1986) - first ignited the debate on corporate governance. This issue is also central to the recent political struggles on corporate governance. Management – shareholder relations can in turn be seen as consisting of three major components. Here, we follow the common distinction between exit and voice (Hirschman 1970) or between external – through the *market for corporate control* - and internal – through the governing structure of the corporation itself - mechanisms of control that shareholders can or cannot exercise over management or over the corporation (Jensen 1993). The third key issue is that of transparency and accountability, the regulation of which is highly relevant to both internal and external dimensions. We thus arrive at the following three key instances of regulation:

- The *internal governance structure* of the firm
- The *external control structure* of the firm
- Regulation affecting *transparency and accountability*

#### *Research methods*

The core methods of the programme will be semi-standardized expert interviews, combined with the analysis of archival or documentary sources. Interlocutors will primarily be identified within interest groups, government agencies, international organisations and private self-regulatory bodies. Typical documents to be analysed will be diverse (draft) corporate governance or accounting standards as well as position papers by various actors. Earlier research by the applicants has proven the adequacy of this methodology for similar purposes (e.g. van Apeldoorn 2002). Given the complexity of multi-level corporate governance regulation and the early, explorative stage of theory development, the utilisation of more quantitative methods appears to be less advisable. We may, however, utilise a simple form of network analysis in order to visualise the relative position of various interested parties within the development of corporate governance standards (cf. Nölke 1995 for an example of this method). In order to increase the validity of our findings, we will circulate draft project reports to all original interlocutors before publication, for verification and comments.

#### **4. Outline of Empirical Research: Three Integrated Projects**

The programme will have a matrix organization, where each project has the responsibility for the integration of the findings on one of the three governance levels and on one of the three elements of corporate governance. The combination of governance elements and arenas derives from the highly controversial character of the market for corporate control within the European Union, whereas only in the CEEC entire internal governance structures had to be developed from scratch; global (private) standards are most prominently being set in the issue area of transparency and accountability. This organization combines a complex, comprehensive approach with an efficient division of responsibilities:

Arena:	Issue:	External Protection	Internal Representation	Transparency & Accountability
European Union		European Market for Corporate Control (Project 1)		
CEEC			Introduction of Corporate Governance Regulation in CEEC (Project 2)	
Global Economy				Global Private Authority and Corporate Governance (Project 3)

Figure 1 Three integrated projects

*Project 1: The Transformation of Corporate Governance Regulation in the European Union*

Currently, the continental ‘stakeholder model’ - in which the firm and its management are embedded in a *network of interests* - is in a process of transformation, raising the question of a convergence on the Anglo-Saxon ‘shareholder model’ (Rhodes and Van Apeldoorn 1998; Streeck 2001; cf. Vitols 2001). A key characteristic of the stakeholder model is the absence of a *market for corporate control*, which constitutes the primary external mechanism of control for shareholders (Jensen 1993; Bittlingmayer 1998). There are, however, signs that such a market - following earlier US developments where the emergence of a takeover market has been concomitant to rising shareholder power (Useem 1993) - is now slowly developing on the continent (OECD 1998; Lannoo 1999; Höpner and Jackson 2001; cf. Barca and Becht 2001). The EU is contributing to this development, in particular, through its proposed *takeover directive*. The directive’s earlier defeat by the European Parliament (after German opposition) and its relaunching following a study by a ‘high level group of experts’ (Winter 2002a) demonstrates both the controversial nature of the issue (Cioffi 2001) and the commitment of the EU to push this through as part of its ambition to complete the integration of Europe’s capital markets by 2005.

The struggle around the takeover directive – as well as a number of related proposals (see Winter 2002b) – is thus a good case to study the political economy of the ‘battle of the systems’ (Story and Walter 1997) that is taking place in Europe. As the development of a European market for corporate control would fit with, but at the same time strengthen, the globalisation of capital markets in which transnationally mobile investors increase their *exit* power, an analysis of this

*Europeanisation* of corporate governance regulation may also offer a better understanding of the extent, and ways, through which changes within the European arena of governance are related to global developments.

This project hence focuses on the following research questions:

- What is the role of the EU in creating a European market for corporate control and to which extent does this *Europeanisation* imply a convergence on the Anglo-Saxon model?
- How does this particular *Europeanisation* of the regulation of corporate governance relate to national regulatory changes on the one hand and global/transatlantic developments on the other?
- What explains this *Europeanisation* in terms of both form and content? In particular, what accounts for the EU's push for a European market for corporate control?

This project will analyse the transformation of corporate governance regulation in the European Union from a transnational and multi-level perspective in which the emergence of a European governance structure is placed within the context of developments within the global arena. Rather than taking globalisation, though, as simply the driving force behind national regulatory change, we take it that the European level of governance constitutes an important mediating variable in this respect, and that both form and content of *Europeanisation* is in turn mediated and shaped by *transnational actors* operating both within and beyond the European arena (Van Apeldoorn 2002). In explaining the *content* of (proposed) EU-level regulation, we should thus analyse the role of interests originating inside as well as outside (e.g., US institutional investors) the EU. The explanatory thrust of our transnational political economy approach emphasises, on the one hand, the *agency* of these transnational social forces, while on the other hand, also taking into account the changing *structures* of the global economy that in part shape this agency. With regard to the *form*, the fact that in the *Europeanisation* of corporate governance regulation, a key role is played by the so called 'High Level Group of Company Experts' – in itself a transnational actor - may also point to a significant shift in the *mode of governance*.

This project aims at the development of a transnational political economy explaining the changing *European* regulation of shareholder-management relations within corporate governance, in particular the issue of the *external control structure* as exemplified by the proposed takeover directive.

This project will contribute to the existing academic state-of-the-art because:

- The study of the struggle around attempts to create a European market for corporate control will shed new light on the question of convergence on the Anglo-Saxon model;
- Attempts to chart and explain the changing regulation of corporate governance at the *EU level* so far have been limited and not based on in depth empirical research (cf. Rhodes and Van Apeldoorn 1998; Bieling and Steinhilber 2002).

- By placing Europeanisation within a wider global context and examining the linkages between the European and transatlantic arenas we will advance our understanding of multi-level governance in the EU.

The outcome of the European struggle over which model of corporate governance to adopt is at the heart of a wider struggle over Europe's socio-economic order and thus affects the fate of European societies to a large degree. In spite of this, the *mode of governance* through which the (changing) regulation of corporate governance takes place, revolves around distant institutions and closed 'expert groups', thus raising issues of legitimacy and accountability.

*Project 2: Transnational Forces and Corporate Governance Regulations in Central Europe*

This project studies the struggles over the introduction of corporate governance (CG) regulation within the Central and East European transition economies during the last 10 to 15 years. In the economic transformation from plan to market, the first step has been the imposition of financial discipline (eliminate government subsidies, easy credit, payment arrears) and competition (World Bank 1996, 45). The second step consisted in the creation of property rights and their *lock-in* through privatisation and the attraction of foreign capital (World Bank 1996, 48; also Frydman and Rapaczynski 1993, Rapaczynski 1996, Böröcz 1999). Experience quickly showed that privatisation was no panacea: a host of problems transpired, all pointing to the need for an appropriate institutional context (Stiglitz 2001, Rapacki 2000, OECD 2001). The third step in the transition process therefore consisted in the adoption of a CG system (Johnson/Shleifer 2002). By 1994, five countries had made significant progress towards matching the growth of the private sector with capital market and CG mechanisms, a situation not markedly different by 2000: Slovenia, Hungary, Slovakia, Czech Republic and Poland (Estrin 2001, 17). Given the special history of Slovenia as one of the successor states to the Yugoslav Federation, this project will concentrate mainly on the original four Central European members of the Visegrad group. The transition process, and the introduction of institutions and regulatory practices underpinning the emerging market economy, cannot be understood as an endogenous process. The literature on CG in Central Europe mostly ignores external influences: at best we can find scattered references to either the Anglo-Saxon or the continental European model of CG being adopted in Central and Eastern Europe (e.g. Phelps et al. 1993, Garrod 2000, Rapacki 2000 and McCarthy/Puffer 2002). This relative oversight is remarkable given the degree of involvement by various Western actors in the transition process (for instance see Berglöf/von Thadden 1999 and especially Meaney 1995).

The project will focus on the following research questions:

- What are the mechanisms through which corporate governance regulation is transmitted to the new market economies in Central Europe, and what are the main (domestic as well as foreign) intermediaries in this process?

- Do the activities of public and private international organisations lead to a substantial convergence of (internal) corporate governance structures in Central Europe, or do we observe rivalry and divergence between different concepts of corporate regulation?
- How can we explain the trajectory of corporate governance regulation in Central Europe and how can we theorise the dialectic interaction between domestic forces and transnational influences?

This project departs from the assumption that ‘transition’ represents the *internationalisation of the state* in the context of neo-liberal globalisation. During that process the state is transformed from an institution that shields the domestic social formation from external influences to the institution whose function is to adjust domestic structures and policies to the exigencies of the liberalising global economy. This involves a restructuring of state agencies into a new hierarchy with the agencies controlling the insertion of the national into the global economy (ministries of finance in particular) (Cox 1987, 253-265). This internationalisation of the state is complemented by the impact of the growing *nébuleuse* of private and quasi-state institutions, agencies and forums in the global economy (Cox 1992) that determine the distinctive forms in which neo-liberal global governance occurs in continuous interplay with similar developments at the regional and the national levels.

This approach has been applied to the accession process of Central European countries to the EU (Holman 2001) and to the transnationalisation of the Polish state (Shields 2002). Deacon (1997) has studied the role of both European and global international organisations in the formation of social policy in Central and Eastern Europe. There is, however, no study that presents a detailed analysis of the role of private actors alongside (inter)governmental organisations. The project aims at the analysis and explanation of the influence of external (f)actors on the content and mode of corporate governance regulation in general, and company law in particular, in Central Europe between 1989 and the present.

The project will make a substantial contribution to the literature on the politics of corporate governance in Central Europe, and more in particular it will:

- Contribute a novel perspective to the literature on the political economy of *transition* in Central Europe,
- Employ the concepts developed in the multi-level governance and ‘Europeanisation’ literature in the study of the *accession* process,
- Contribute to the literature on the role of transnational actors and private authority in global governance.

The project has three societal audiences:

- Various societal groups in Central Europe (and other transition countries undergoing the same restructuring process) who lack detailed information about the international context of seemingly national developments;
- Societal groups of similar nature in the EU concerned with the accession process;
- Equivalent groups concerned with forms and modes of global governance.

Representatives of such groups (trade unions, employers organisations and business associations, political parties etc.) will participate in the workshops to be organised by the programme. A special effort will be made to include a substantial representation from Central European countries.

### *Project 3: Global private authority and corporate governance*

The evolution of private authority over corporate governance has considerably intensified during the last years – out of the 35 (mostly private) corporate governance codes currently existing in the EU Member States, 25 have been issued since 1997 (Weil, Gotshal and Manges 2002: 2). Although there are a number of competing standards, there has been a strong tendency towards substantial convergence. Remaining differences primarily reflect the association with different (national) models of capitalism. Furthermore, some private standards have been endorsed by public authorities, on the national, European and global level. Thus, private authority on corporate governance has become enmeshed in a complex web of multi-level governance. Given the dominance of economic and legal literature on corporate governance, the political struggle behind this evolution of private authority is largely unaccounted for.

These observations are most obvious for the case of accounting standards. Here, the first substantial attempts for transnational harmonisation have already been undertaken in the early 1970s. During the 1990s, the controversy between US GAAP, IAS and various national standards in Europe has dominated the issue area. Numerous European companies have applied US GAAP to be listed on the NYSE. Recently, the EU has decided that European companies have to adapt the (private) IAS standard by 2005. In the aftermath of Enron, even US authorities consider the acceptance of these rules. Public auditing standards, however, have been tightened by the Sarbanes-Oxley Act, also affecting numerous European companies.

Given these developments, the project will focus on the following research questions:

- Does private authority lead to a substantial convergence of corporate governance / accounting regulation?
- Does private authority provide the foundation for a public codification of corporate governance / accounting standards on the national and international level?
- How can we explain the evolution of private authority on corporate governance/ accounting, both in terms of contents and its importance for the regulation of the issue area?

Conventional explanations of the evolution of private authority on corporate governance focus on the functional requirements of liberalised markets for the harmonisation of standards (cf., e.g., Weil, Gotshal and Manges 2002:1). Furthermore, competing substantial claims are mostly being discussed in a technical manner, assuming that standards are mainly a question of the most (market-) efficient solution. Our combination of a transnational political economy approach with the resource dependency approach on transnational policy networks, in contrast, focuses on the interaction between economic as well as institutional structures and the concrete interests of different socio-economic groups. Thus, the rather conservative, debtor-oriented accounting

standards of the German HGB may, e.g., be explained by the strong role of the German banks during the evolution of this model of capitalism. The increasing importance of IAS is also due to EU institutional harmonisation requirements. The complex, case-oriented structures of US GAAP are, inter alia, caused by the lobbying efforts and the evasive behaviour of US companies in diverse economic sectors.

Utilizing this approach, the project aims at the development of a description and explanation of the content and role of private authority within the regulation of corporate governance in general and accounting in particular. In reaching this objective, the project intends to provide a substantial contribution to three major social science literatures:

- The issue of private authority is at the cutting edge within the discussion on globalisation in general and on financial markets in particular (Cohen 2002:442). Although Susan Strange (1996) made wide-ranging claims regarding the increasing role of private authority on a global scale, these claims have not yet been matched with systematic empirical research. The conceptual discussion on global private authority is still in its infancy (cf. Cutler, Haufler and Porter 1999, Higgott, Underhill and Bieler 2000, Ronit and Schneider 2000, Hall and Biersteker 2002). Empirical studies very much concentrate on the specific issue of business codes of conducts (e.g., Haufler 2001), but hardly take the role of private authority for a fundamental convergence of capitalist models into account. The most important exception are studies on credit rating agencies (Sinclair 1994, Kerwer 2001). These studies, however, have not yet been matched by investigations in other fundamental economic co-ordination mechanisms.
- Within the literature on (global / multi-level) governance, the issue of private authority is rather neglected. As far as private actors are taken into account, this literature focuses on public-private interaction, as in the discussion of (transnational) policy networks (Nölke 2000). Existing studies on private self-regulation remain restricted to the national level (e.g., Streeck/Schmitter 1985).
- The discussion on accounting is dominated by professional literature. There are only few social science studies of this issue area (cf. Mennicken 2002) and there is no comprehensive study of the transnational political economy of private accounting standards, although we may draw on some work on regulatory competition (Sunder 2002).

Private authority has a strong tendency to be hidden from the public. This is even more relevant on the global level. Only the interested organisations and a few technical experts are aware of it. There is hardly any transparency or even democratic accountability. Given the increasing relevance of private authority in general and its crucial role for corporate governance in particular, the project will make the workings of this form of governance more accessible, also to a wider, non-specialist public, which very much contributes to its societal relevance.

## **5. Research Objectives**

At the conclusion of the research programme we hope to have achieved the following objectives:

- Chart the different changes that have taken place in the area of regulating shareholder relations in our different arenas;
- Assess the extent to which these changes amount to a convergence of existing (national) models;
- Chart through which different types and levels of governance regulation is changing;
- Explain how these different types and levels of governance are interrelated (and thus):
- Develop an integrated explanation of observed shifts in corporate governance regulation with regard to both content and form;
- On the basis of this explanation contribute to our understanding of current shifts in governance, both within and beyond multi-level Europe;
- Thus improve upon existing concepts and theorisations of multi-level and global governance and outline a research agenda in which our findings and insights with regard to observed shifts in governance may also be applied to other areas;
- To fill – on the basis of our findings - an important lacuna within the literature on corporate governance and thus contribute to a better understanding of the issues at stake in the current political struggles over corporate governance reforms and thus to inform the public debate.

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