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The State of the Art

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Abstract

The current literature on corporate governance in Eastern Central Europe is dominated by economic and juridical accounts. It widely neglects the role of politics in the establishment of a new corporate governance system in this region. This paper argues that this is a failure because, in contrast to popular beliefs, politics is indeed essential for explaining the developments in this field. By identifying the lacunas of current corporate governance research, this paper provides a first exploration of how studies of political actors and institutions could enrich the existing literature.

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1 Introduction

Corporate Governance has become a buzzword all over the world and this is no different in Central and Eastern Europe, but the fact that corporate governance is also fashionable in this part of the world might come as a surprise given the enormous range of political and economic challenges this region faced during the last decade. Corporate governance is namely sometimes considered as a ‘finishing touch,’ which is only of interest when everything else in the socio-economic sphere is settled. However, the question of how corporations are governed lies at the heart of the economic transition in Eastern Central Europe (ECE). In the transition from a planned to a market economy, it is the ways in which corporations are internally structured that changed radically and has been the centre of attention. Shareholders, for instance, were a hardly known concept during communist rule and the relationship between the corporation and other stakeholders such as the state and employees changed fundamentally during the last fifteen years.

However, although corporate governance increasingly attracted attention in ECE, the role of the factor ‘politics’ is widely neglected. Most of the current literature is written by economic and law scholars and focuses on a descriptive and normative discussion of the necessity and practical functioning of corporate governance systems. Questions relating to the politics of corporate governance are hardly discussed. No systematic attempts have been made to explain why certain corporate governance systems have appeared in the countries of ECE (i.e. Poland, Hungary, the Czech Republic and Slovakia), nor has the role and power of different actors in this debate been closely examined. In this paper I argue that the current literature misses out on the crucial question of why corporate governance systems in ECE develop the way they do. Furthermore, I will provide a first outline of how this void could be filled.

To this purpose, this paper is divided into four remaining sections. Section 2 deals with the neglect of the factor politics in the current literature on corporate governance in ECE and argues why this blind spot should be addressed. I will also look at the context of the economic transition in ECE that gives the current discussion its own dynamics and explain some of the features of this debate. In section 3, I identify the important issues and try to characterise the current debate, the dominance of the rational choice approach in the economic literature on corporate governance and its consequences for the research conducted (3.1), and the fact that almost all literature focuses on the relationship between shareholders and the management (3.2). In section 3.3 some corporate governance issues that are specific for the region are discussed. In section 4 I turn to approaches and actors that have been neglected in the current literature. I focus on two issues in particular: the ignorance of path-dependency (4.1) and the neglect of the role of transnational actors in shaping the new corporate governance system (4.2). In the final section, I touch upon the question how future research on corporate governance could be usefully conducted in the light of the fact that politics do matter when it comes to corporate governance regulation.

2 Corporate governance and politics

Although Berle and Means had already identified some of the major problems that come along with the division between ownership and management in 1932, the words ‘corporate’ and ‘governance’ were not combined until 1977 (Frentrop 2002: 11). The term ‘corporate governance’ is relatively new and experienced a high flight only after the mid 1990s¹. Despite, or perhaps because of, the surge in interest for corporate governance there is no definition that is universally accepted. Most of the literature sticks to a rather descriptive formulation, which is often somewhat circular, such as ‘the question of how corporations should be governed’ (O’Sullivan 2003: 23). A definition that is more precise on what corporate governance actually is, is offered by Jackson and Aguilera, who define corporate governance as ‘the relationship among stakeholders in the process of decision making and control over firm resources (with the firm itself defined as a collection of resources embedded in a network of relationships among stakeholders’ (Jackson and Aguilera 2003: 450). This definition acknowledges one characteristic of corporate governance that has been largely neglected within the current debate, namely that corporate governance is more than just the relationship between management and shareholders, or as Shleifer and Vishny (1996) put it, the question of ‘how investors get the managers to give them back their money’ (1996: 4). Within the popular media and also within the academic literature, most attention is given to this issue, whereas the definition mentioned above indicates that there is more to corporate governance than just this relationship. Other stakeholders, such as employees, society as a whole and the state also constitute a part of the corporate governance discussion.

The explicit reference in Jackson and Aguilera’s definition to ‘the process of decision making and control over firm resources’ automatically brings in the factor ‘politics.’ Politics is often defined as a question of power (Goodin and Klingemann 1995, Weber 1978), or in the terms of Lasswell as the question of ‘who gets what, when and how’ (Lasswell 1936). The power relations between the different stakeholders are at the heart of any corporate governance issue and as political actors and institutions shape the economic and social playing ground for corporations, they are important in explaining the outcomes of struggles within firms. Politics ‘can affect a firm in many ways’ (Roe 2003: 1) and political forces ‘account for the difference in choice of corporate governance models among advanced industrial countries’ (Roe according to Gourevitch 2003: 1830).

2.1 Corporate governance and the dominant a-political account of the transition in East Central Europe

The a-political nature of the literature on corporate governance can be understood when we look at the dominating ideas on the economic transition in Eastern Central Europe (ECE), namely as a process of state retreat. From this point of view the transition envisages to ‘de-politicise the economy’ (Estrin et al 2000: 1, see also Boycko, Shleifer and Vishny 1996) in favour of ‘*apolitical*’ market forces as means of allocation. Where (international) market forces

gain strength, governments are forced to loosen their grip on the national economy. Moreover, this view is often implicitly and sometimes explicitly combined with the normative idea that this state retreat is a positive development (Lipton and Sachs 1990).

Yet this description of the transformation process only covers half the story. Whereas on the one hand the states throughout the world have indeed loosened their grip on national economies, they have on the other hand actively chosen the means and rules by which this process took place. According to Panitch the process of economic restructuring was actively directed and guided by politicians, who were able to gain political strength by means of this strategy (Panitch 2000: 6).

Examples of these new rules allowing markets to operate freely are the constitutional safeguards for international capital. These safeguards have been actively advocated by the international financial organisations and this corresponds with what Stephen Gill calls 'new constitutionalism'. According to Gill (1998: 1) this 'is a particular set of political and constitutional changes linked to the reconstitution and protection of capital on world scale'. Gill just like Panitch, places this process in a context of new active involvement of political elites with the (inter)national economy. This strategy involves a 'more conscious emphasis on actively moulding and reinforcing the state to provide a more stable political environment for capital (ibid).' These kinds of accounts call for a closer examination of the role of politics in the economic restructuring in ECE and contest the assumption that economic transition is only about de-politicising the economy.

Corporate governance issues are closely related to more general literature on the economic and social restructuring in ECE, which is normally referred to as a 'dual transition.' As the term 'dual' already suggests there are two different, though intertwined, processes. First, there is a body of literature that focuses on the political transition from state socialism towards liberal democracy and places much emphasis upon questions of democratic consolidation and the role and constitution of new political elites (for example Gunther and Higley 1992, Higley et al 1997, Higley and Lenyel 2000, Wasilevski 1997, Best and Becker 1997, Elster et al 1998, Diamond 1999). Secondly, there is a strand of literature that discusses the economic transition from a state led mode of production towards a market orientated one, in which there is some attention for issues regarding corporate governance (for example Börörcz 1992, Köves 1992, Richter 1992, Balcerowicz 1993, 1995, Frydman 1993, Frydman et al 1993, Gowan 1995, Holman 1995, Cox and Mason 1999, Andor 2000, Schütte 2000).

During the last years of the communist regimes and the first years of the transition the focus was upon liberalisation of prices and the imposition of financial discipline. After this *first step* of liberalisation, most emphasis in *phase two* was placed upon the restructuring of property rights. Privatisation became the buzzword as the countries of the former Visegrad group adopted different approaches towards the restructuring of ownership. In the early 1990s, privatisation was at the heart of the political and academic debate or as former Czech minister for Privatisation Dusan Triska put it: 'Privatization is not just one of many items on the economic

program. It is the transformation itself' (Triska in: Nellis 2000).

However, when the first two waves of the transition process had passed by, privatisation proved not to be the panacea many had hoped for. Although the private share in GDP went up, none of the former communist countries, except for Poland, had reached the 1989 GDP level in 1997. Furthermore, the transformation had been primarily focused on the downsizing of production, assets and employment. This defensive strategy was not accompanied by any deeper restructuring aimed at investments and innovative business strategies as the World Bank in 1996 reported (World Bank 1996: 47).

The literature on the economic transition contributes these developments to the lack of proper institutions to guide the transfer of property and regulate corporate control in the newly privatised companies. Privatisation without underlying corporate governance mechanisms does not 'clearly solve the problem of having well-identified private owners who actually control and govern newly privatised enterprises... *qualitative* privatisation could only be achieved by coming to grips with the corporate governance issues' (Andreff 1996: 59- 60).

Acknowledging these problems, governments turned their attention to mechanisms 'to remedy problems identified through the experience of the initial legislation, to improve the quality of law-making and law-enforcement, but also to offer more effective and forward-looking solutions' (Dragneva and Simons 2001: 94). Corporate governance issues therefore constitute the *third step* of the economic transformation in ECE.

3 Dominant approaches in the current literature

Although the introduction of corporate governance regulation is an intrinsic part of the transition process, its measures 'require separate political initiatives' (Johnson and Shleifer 2002: 2) that do not necessarily follow from other parts of the transition. And despite the fact that issues related to corporate governance often arose from underperformance in the area of privatisation, they have developed themselves as a strand of its own. In this section I focus on the dominant theoretical approaches and sketch the most important areas of interest.

3.1 The dominance of the rational choice approach and the lack of the factor 'politics'

There is a theoretical dominance of a neoclassical economic approach in corporate governance research on the countries of Eastern Central Europe (f.i. Lipton and Rosenblum 1991, Frydman et al. 1993, La Porta et al. 1999a, 1999b, 2000, Johnson et al 2002). In short, this approach departs from the premise that we can arrive at macroeconomic statements 'from firm microeconomic foundations' and that 'all explanations of social phenomena have to be couched in terms of statements about individuals' (Hodgson 1988: 53). Politics in the neoclassical sense might be defined in terms of markets in which the different actors engage in exchange with the purpose to fulfil their own (individual) preferences (Hoogerwerf 1991: 119). This dominant presence of the neoclassical economic approach, which bears great resemblance with the rationalist accounts of

policy making that is dominating international political economy (Woods 1995: 161), has some major consequences for the nature of the existing literature.

As Richard Higgot (2000: 144) states, the rational choice approach often tends to make 'little attempt to understand governance as issues of politics and power'. In the case of the literature on corporate governance in ECE this statement seems to hold. Both prescriptive and descriptive literature on corporate governance in ECE treat the decision-making process as a merely technical, and thus de-politicised, process.

The rational choice approach also neglects the question of how preferences are defined. Constructivists however rightly argue that 'individuals must not be seen as presocial entities' (Van Apeldoorn et al 2003: 31). We thus have to ask ourselves how actors arrive at their definition of their own economic interests. In the case of corporate governance in ECE hardly any attempt has been made to explain where the current ideas of 'good corporate governance' stem from. And, as 'ideas and ideologies play a crucial role in defining social categories and social expectations' (Woods 1995: 170) and thus influence policy making, it is this question which is of special importance.

Departing from the idea that economic ideas do not come out of nowhere but are subject to social struggles, an analysis of what is considered good corporate governance, and why, is essential. Here the neglect of international actors, to which I will turn later, might be of special interest, as 'international institutions such as the IMF and the World Bank, are very influential in facilitating a particular world economic view' (Woods 1995: 169).

In other parts of the corporate governance literature the discussion on the influence of the factor politics is very much alive. 'No one really doubts that politics has something to do with corporate governance, but theorists vary considerably in the status they give to politics in a causal model' reports Gourevitch (2003: 1831). Roe (2003) considers politics to be the primary factor in explaining the differences between corporate governance systems, whereas La Porta et al. (1999a) point at the quality of corporate law as the most important factor in understanding the different systems.

Despite these differences Roe, La Porta, Lopes-de-Silanes, Shleifer and Vishny all challenge 'important literature in economics that argues that the efficacy of the market makes regulation unnecessary and renders variation among governance forms unimportant or nonexistent' (Gourevitch 2003: 1832). In contrast to this Coasian position that law does not matter with regard to output of corporation attention, an increasing number of scholars take the position that institutions do matter. Coase (f.e. 1988) assumed that under ideal circumstances, i.e. when there are no transaction costs, it does not matter how the property rights are allocated. As long as 'people can trade their assets in order to achieve efficient allocation' (Blaszczyc 2004: 3) the initial allocation of property rights will almost automatically be changed into the most efficient one. Laws and other regulations are in this respect considered to be irrelevant as long as they do not hinder efficient allocation. In all, 'there is no pronounced relationship between the type of ownership and performance' (Blaszczyc et al. 2004: 1, see also Williamson

1990), since it are the markets and the competition that account for the success or failure of a company and not the ownership structure.

This view has become increasingly criticised. Coffee Jr. even goes so far as to argue that a new spectre haunts ‘the neo-classical theory of the corporation. It is the spectre that law matters’ (Coffee Jr. 1999: 1). The assumption that law and ownership matter, lies at the centre of the argument in favour of the privatisation process: privatised firms are assumed to outperform state owned ones. In direct relation to corporate governance relatively much attention is devoted to the impact of law traditions. The differences between common law systems and civil law traditions received considerable attention (La Porta et al 1999, Glaeser et al. 2001). Here it is argued that the former would outperform the latter (see for instance Johnson and Shleifer 2002). Furthermore, the question which institutional setting would create the best climate for investments is addressed. In this respect attention was focussed on the protection of minority shareholders and the risk of ‘tunneling’ by management.

3.2 The dominance of the shareholder-management relationship

Apart from the bias towards neoclassical theory in the field of economic accounts on corporate governance, another bias catches the eye. As Dregneva and Simons (2001: 93) state, the current literature is rather one-sided and reflects ‘one particular corporate governance paradigm: that of the company as a closed system of governance limited only to shareholders and directors (managers) and concerned (primarily) with ordering the balance between them.’ This bias is mostly reflected in the juridical literature on corporate governance, but also here the factor politics seems widely neglected.

As Lipton and Rosenblum (1991: 187) argue, ‘corporate governance is a means, not an end. Before we can speak intelligently about corporate governance, we must define its goals.’ In practice however, the answer to this question is rather one-sided. As I have pointed out in the introduction, corporate governance is normally regarded as an issue that only deals with the problems that might occur when ownership and management are not in the same hands. This implies that other stakeholders, (unionised) labour most dominantly, are being neglected. Dregneva and Simon are right when they argue that ‘reception has been a powerful force in molding the emerging regulatory patterns in Eastern Europe, including in the realm of corporate governance’ (Dragneva and Simons 2001: 93). In this sense the current popular and academic debates on corporate governance diminish the already existing weak position of these stakeholders. Current analyses have not addressed the question of how others actors than shareholders and management are involved.

The bias towards the relationship between shareholders and management is ubiquitous, though the literature’s bias also stems from the fact that, as I have indicated above, most literature on ECE is influenced by the debates on privatisation and is thus primarily concerned with property rights² (Stiglitz 1999, Dregneva and Simons 2001: 93). The distribution of corporate control in ECE is different from elsewhere in the world. During the first years of

the transition, (new) owners were relatively weak vis-à-vis other stakeholders that sometimes had ownership rights too (idem: 10)³. Based on his analysis of the Czech privatisation process Palda concludes that the former nomenclature is the biggest winner of the ‘chaos in the financial structures’. At the same time he predicts a ‘slowly evolving hybrid of German and American governance systems will emerge’ (Palda 1997: 93). Meyer also observes converging tendencies although he agrees with Palda that ‘the convergence to West European or Anglo-Saxon systems of governance is slow’ (Meyer 2003: 30).

3.3 Specific corporate governance issues in East Central Europe

The major issues of current research directly follow from this restructuring of corporate control during the first years of the transition. Alongside the issues discussed above, three other major issues can be identified: *minority rights*, *the role of investment funds* and *the question of who guards the guardians*. The issue of *minority rights* deals with the problems that arrive from the fact that in corporations with a large shareholder, this shareholder might be inclined to use his power to harm smaller shareholders. Minority rights protect those smaller shareholders from being robbed at the benefit of the large shareholder. These rights are ‘crucial because, in many countries, the expropriation of minority shareholders and creditors by controlling shareholders is extensive’ (La Porta et al 2000: 4). This clearly happened in the Czech Republic where it was relatively easy to strip a corporation of its value after gaining control over it. The mode of privatisation here, a voucher system, led to a highly dispersed system of shareholding and chaos in financial structures. Investment and privatisation funds (IPFs) got their hands on over 50% of the shares and, as they were alleged to act in favour of the fund managers instead of the shareholders, those who indeed ‘owned’ the corporation did not profit from it.

Problems like the ones in the Czech Republic raised the attention to other legal structures as well, such as bankruptcy rules. Take-over and bankruptcy regulations can be ‘viewed as the central ingredients in the market for management’ since they are the means ‘by which control rights get shifted’ (Stiglitz 1999: 46).

Other countries, which had adopted other privatisation schemes, suffered less or other problems. Sales to foreign investors, as was the case in Hungary, caused less corporate governance problems (but all kinds of other problems). Management Buy-Outs and Employee Buy-Outs were dominant in Poland, which allowed insiders to get ownership of the companies they used to work for. This procedure was politically controversial and raised the question of fairness as those who worked in good performing companies were better off than those who worked in poorer functioning (Meyer 2003).

Although states adopted different strategies, it is not to say that all options open to Western countries were available in ECE. On the one hand for example budget deficits urged states to sell some of its major industries to (foreign) investors, whereas on the other hand the absence of (functioning) stock market during the first years is considered as hindering effective corporate governance.

Another issue that relates to a particular feature of the region is the role of *National Investment Funds*. Governments, or in some cases individuals, have established these funds to coordinate the privatisation process, or as more critical voices tend to say, to profit from the mass privatisation that took place in the region. Estrin et al. argue that here ECE is clearly distinct from other market economies in which ‘investment funds do not normally play a significant role in enhancing or inhibiting corporate governance’ (Estrin et al 2000: 2). National investment funds can, to a certain extent, be regarded as institutional investors, namely in the sense that these funds often hold the shares (or some functional equivalent) of individual citizens and are thus able to influence the way a company is run, most notably by using ‘voice’ (following Hirschman 1970).

However, as I have indicated above, the weak institutional environment in which these funds operate allows them to operate in their own (managerial) interests rather than in the participant’s interests. Banks that play a vital role in most of these privatisation funds tend to have another agenda than the small investors who have put their money in such funds (Estrin et al. 2000).

Substantial literature is therefore devoted to the question ‘*who guards the guardians?*’ (Stiglitz 1994, 1999; Estrin et al 2000; Herbert and Dockery 1996a and b; Ellerman 2001). This discussion draws the issue of corporate governance from its initial playing field, that is the firm, to a higher level of governance, namely banks and investment funds. The key actors however remain the same, owners and management. Therefore, this is only a shift of the problem to a different level rather than a solution for real corporate governance problems. At the same time the role of governments in regulating these funds has not been in the centre of any of the current inquiries on the investment funds.

4 Neglected issues and approaches

As a result of the dominance of economic and juridical literature, the existing literature lacks theoretical approaches that depart from something other than a micro- or meso-theoretical framework. From a political science perspective this is a clear void, since the literature now does not relate to the developments in this field to larger developments in the region. At best we find references to the privatisation process. Although these references are often useful, they are only presented to introduce the corporate governance problematique and tend to deal only with the economic aspect of transition. As the political struggles over corporate governance are hardly discussed, almost nothing is said on the relationship between the corporate governance issues in the region and the larger political processes. The latter seems to be a feature of most of the work on corporate governance, although there are some exceptions. Bieling (2002), for instance, discusses the current West European developments in the area of corporate governance in the framework of a larger transformation of socio-economic and political restructuring. Also within the debate on the varieties of capitalism, to which I will turn shortly, developments in the field of corporate governance are linked to a wider discussion on the future of capitalism.

4.1 The neglect of path dependency

There are other approaches which have contributed to the field of economic transition that are lacking in the literature of corporate governance, path-dependency being one of the most prominent examples (Hausner et al 1996, Stark 1992, Stark 1996, Stark and Bruszt 2001, Grabher and Stark 1997, Offe 1997, Whitley 1999). Theories drawing upon path dependency stress the ‘critical role for timing and sequencing’ (Pierson 2000: 263) and most of these analyses share a more critical judgment of the neo-liberal agenda that has become dominant both politically as well as academically, as they argue for a more gradual approach towards the economic transition.

Analyses based upon path-dependency start from the observation that cases tend to react differently to the same kinds of developments. In order to explain these differences path dependency looks at the specific historical, social, cultural, economic and juridical factors that shape political outcomes.

Path dependency draws upon the theories of historical institutionalism, an approach which claims ‘that choices formed when an institution is being formed, or when a policy is formulated, have a constraining effect into the future’ (Greener 2004: 2, but also see Hall and Taylor 1996, Koebler 1995, Peters 2000). Notwithstanding the various ways in which the path dependency approach is being used (idem: 4), its focus on the ‘the embeddedness of economic behavior’ (Granovetter 1985: 482) allows for an approach that goes beyond a technical, a-political discussion of issues related to corporate governance.

With regard to the area of corporate governance there are already some approaches that come close to or directly refer to theories regarding path dependency (for instance Bebchuk and Roe 1999, Groeneveld 1995, Frenstrop 2002). In this work the existing historical, juridical and cultural context is taken as a starting point for analysing and explaining the corporate governance systems. Its major findings argue that there is continuity within a system and differences between different national systems. Two different sources of path dependency discerned: (1) structure-driven path dependence, ‘the effect of initial ownership on subsequent ownership structures’ and (2) rule-driven path dependence which relates to ‘the effect that initial ownership structures have on subsequent structures through their effect on the legal rules governing corporations’ (Bebchuk and Roe 1999: 1).

However, despite its presence within the broader context of the transition, path dependency with regard to the development of a corporate governance system in ECE is still lacking. Moreover, many contributors to the ECE corporate governance debate take insufficiently into account ‘the implications for the implementation of systems borrowed from elsewhere of the historical and cultural context of the reforms’ (Wright and Chiplin 1999: 1194).

Federowicz rightly points at one of the weaknesses of a too broad path dependency approach, namely that in ‘*post facto* explanations everything might be interpreted as path-dependent, but it offers little insight into the mechanisms of institutional change’ (Federowicz

2003: 5). He calls for supplements to this approach and in his edited volume provides one of the few attempts to use certain features of the path-dependency approach in order to make sense out of the developments in the area of corporate governance in ECE (Federowicz and Aguilera 2003).

Over the last few years, the path-dependency literature on corporate governance in the OECD world has been dominated by the debate on the varieties of capitalism (VoC). This debate was initiated by Michel Albert's work *Capitalism vs. Capitalism* (1991) in which Albert proclaims that although the European model of capitalism is in the long run more successful in obtaining economic growth and stability, the Anglo-Saxon type of capitalism is due to prevail because of its aggressiveness. This discussion on the different types of capitalism offers new ways in which corporate governance can be discussed. It is widely accepted that corporate governance systems in the different capitalist states tend to vary. Although not everybody agrees on the amount of capitalist varieties there are, it is beyond doubt that there are substantial differences between the different Western capitalist states and that these differences are also reflected in the way companies are governed and the manner and extent to which governments are influencing this governance (Hall and Soskice 2001). The question that now arises is how the ECE countries fit into this categorisation of capitalist variety, given that they had to construct a new institutional system from scratch.

4.2 The ignorance of transnational actors

The task of developing a new institutional system from scratch has attracted considerable attention, especially from international actors, who considered ECE as a 'testing ground' for several new policies (Deacon e.a. 1997: 149). Their role on the transition process is theoretically underdeveloped. The autonomy of national politics is implicitly taken for granted in the vast majority of literature. Theoretically speaking, domestic actors are considered to be relatively free in their actions as Eyal for instance argues that 'despite the "pressures" of the world economic system, and despite the near-identity of rhetoric in support of the market, domestic factors play a major role in determining what kind of capitalism will emerge' (Eyal 2000: 53).

So Shields is right when he states that globalisation and foreign actors in most of the transitional literature are considered as 'an external concern... in a secondary constraining sense rather than determining' (Shields 2004: 132). This is not to say that the latter approaches do not recognise the impact of transnational forces, but they try to downplay their importance or explain their influence by domestic (or at 'best:' regional) developments. Meaney, for example, has argued that the reason why the new ministries of privatisation, which were dominated by foreign experts, were so influential during the transition process is to be found in the fact that the 'old' ministries were highly suspect given their role during the communist rule and the start of the transition process dominated by 'spontaneous' and insider privatisation. (Meaney 1995).

Even of an inherently transnational phenomenon such as foreign direct investments

(FDI), its political nature and its consequences for the political balance of power in the region are hardly investigated. FDI has played an important role in the rise of corporate governance issues on the economic agenda, as foreign companies were very reluctant to invest in states where their money would not be safe. FDI also deserves clearer conceptualisation because it is said to be the panacea that privatisation was not. 'The overwhelming finding from transition economies, at least in Central and Eastern Europe, is that outside, preferably foreign, investors are crucial in bringing about active and deep restructuring' (Berglöf and Von Thadden 1999: 20). FDI is hence considered to do, what privatisation did not- transform the economy successfully- by making key contributions in three areas: capacity building, access to capital and corporate governance. Foreign-owned corporations are said to be more active in restructuring, invest more, have higher export growth, introduce more new technologies and because of their flexibility they are able to enforce higher standards for company performance, also in the field of corporate governance (Meyer 1997: 2- 10). Based upon these findings Berglöf and Von Thadden argue for external conditionality to strengthen the forces that argue for institutional reform and the protection of foreign investors (Berglöf and Von Thadden 1999: 26). Although this is a normative statement, the actual influence of FDI on the political struggle over the implementation of a new corporate governance system is hardly investigated. At best we find the acknowledgement that FDI influences domestic political struggles, which might liberate the state from 'the power of local economic elites' (Ádám 2004: 6). However even in his account the ontological primacy of the state remains untouched.

If transnational actors and their role on the economic transition are taken into account, only a few of them are indeed mentioned. Transnational think tanks and NGO's are almost always ignored. Only formal institutions, such as the IMF and the World Bank, are mentioned (e.g. by Meaney 1995), and even their influence on the implementation of a new corporate governance system has not yet been thoroughly investigated. In other areas, such as stabilisation and privatisation, the Bretton Woods Institutions' (BWI) influence has attracted scholarly attention, but this is far less the case when it comes to the other actors mentioned above and even regarding the BWI the current literature tends to ignore their (informal) influence on the political and economic transition in ECE. At the same time, however, it might be suspected that these organisations have had more influence than elsewhere since the formal economic and political institutions in the region have been in flux during the last fifteen years and have allowed for other than the usual actors to influence developments.

In the broader field of literature on the economic transition in ECE, there are approaches that do not take the state as ontological primacy (Cox 1992, Böröcz 1992, 1999, Holman 2001, Janos 2001, Shields 2002, 2003, 2004). What these authors have in common is that they place the developments in ECE in a wider framework, either as a transition from 'one international regime to another' (Janos 2001) or as part of a neo-liberal project aimed at the incorporation of ECE in the world economy (Shields 2002, Holman 2001, Cox 1992). These approaches, however, are often very abstract and have hardly touched upon issues related to corporate governance. At the

same time most authors implicitly look at international actors as a unitary bloc. In the light of the broader discussions on corporate governance it is questionable whether this is fruitful point of departure. In the next section I will argue that the VoC approach discussed above might help us to break up this unitary view. At the same time a focus on the role of transnational actors might help the VoC literature to overcome its bias towards the differences between states and lead them to a path that also recognises the similarities and tries to theorise them.

5 A call for the introduction of a transnationalised version of the Varieties of Capitalism in ECE

As we have seen in the previous sections, the discussion on corporate governance has its distinct features that are related to the rise of the debate, and to the economic and juridical approaches that dominate the field. As I have pointed out, the current research neglects the political struggle over corporate governance and the role of transnational actors. The current literature is either rather normative or technocratic, which can be considered to be a lacuna from a political science perspective. In this last section I want to draw on some of these challenges stemming from the current state of the literature and try to sketch how we might come to terms with this challenge, or in other words, how we could bring politics and transnational actors back in the discussion on corporate governance in ECE. I will argue that the debate on the Varieties of Capitalism (VoC) might provide a good starting point for further research. It allows us to step away from the narrow economic and juridical bias of the literature. As this debate leaves ample room for the discussion of political factors, it might contribute to a better understanding of the political struggles over corporate governance in ECE. By theories based on VoC we might come to terms with at least two of the voids in the current literature.

The VoC-debate has not yet reached ECE. In the literature we find no more than scattered references to the Anglo-Saxon and Continental type of capitalism (Palda 1997, Meyer 2003), but no systematic analyses have been made to take this debate out of its predominant West European context and apply it to a region that has recently entered the EU or is hoping to do so during the next coming years. This introduction of the VoC-debate offers a prospect of coming to terms with at least two lacunas in the current literature on corporate governance in ECE.

Firstly, it can contribute by relating developments in and political discussions on corporate governance issues to a wider political and economic context. As the discussions on corporate governance are only a part of a larger discussion on the future of national and transnational economic systems, it presents on the one hand inductive evidence for developments that go beyond the field of corporate governance alone and on the other hand we might be able to relate developments in the corporate governance system to larger developments in the socio-economic field. In this way the VoC approach introduces a broader perspective than current literature on corporate governance offers.

Secondly, the VoC approach might help to overcome the bias of the current literature towards the rational choice approach. As the VoC departs on a broader political and economic

perspective, it enables us to move beyond the current focus on microeconomics and offers us the opportunity to focus on political struggles over the implementation of a new corporate governance system.

On the other hand however, the VoC approach -just like the current literature on corporate governance in ECE- struggles with the question of transnational phenomena and actors. The comparative character of the approach leads to a focus on the differences between states, economies and societies. These differences are of importance, but the current work on the VoC neglects the similarities in the policies (Strange 1997). These similarities are as important as the differences, because together they allow for deeper insights in the developments at hand. Accounts that focus on the role of transnational actors might enrich the current nation-state based analysis of the VoC with a transnational perspective, which strengthens the broader economic perspective the VoC approach claims to have. It transcends the mere comparison of nation states without rendering them totally irrelevant. At the same time the VoC approach might enrich the analysis of the agendas of transnational actors. The nature and the agenda of these actors might be more diverse than we would expect based on the current literature. The VoC approach might contribute to breaking up the current unitary approach allowing for different transnational agendas to interact with each other and domestic ones at the same time. This would be even more the case if we also focus on those organisations and networks that up till now have received hardly any attention. In the field of economic transition actors as the Adam Smith Foundation, the Friedrich-Ebert Stiftung and others might have exerted considerable influence, either financially or technically. Here the VoC-debate might serve as a litmus test for the influence of the difference international actors, i.e. help to answer the question which of these actors is able to realise its political and economic agenda in ECE.

Notes

¹ In the case of ECE, there is only little literature on corporate governance dated before 1995 (Lipton and Sachs 1990, Lipton and Rosenblum 1991, Frydman et al 1993, Pohl 1994, Dittus 1994).

² Also here there are a few exceptions (for instance Meyer 2003, 2004 and Mygind 2001).

³ However Meyer remains unclear which stakeholders he refers to (state, employees, managers).

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