



Corporate Governance and Firm Capabilities: A Comparison of Managerial, Alliance, and Personal Capitalisms*

MICHAEL CARNEY

mcarney@mercato.concordia.ca

Concordia University, 1455 de Maisonneuve Blvd., West, Montreal, Quebec, Canada H3G 1M8

ERIC GEDAJLOVIC

egedajlovic@fac.fbk.eur.nl

*Erasmus University and The Rotterdam School of Management, Postbus 1738, 3000 DR, Rotterdam,
The Netherlands*

Abstract. Incentive structures embodied in different systems of corporate governance produce firms with inclinations towards the development of particular capabilities and strategic assets and disinclinations towards the development of others. To the extent that there is an excessive dependence upon any particular type of governance, an economy as a whole will be endowed with both its benefits and costs. As such, governance reform in East Asian economies may be better aimed at cultivating alternative governance institutions alongside existing relational institutions, rather than in converting these governance systems into facsimiles of the so-called “Anglo-American” model.

Keywords: corporate governance, capabilities, strategic assets, managerial capitalism, alliance capitalism, personal capitalism

1. Introduction

When the East Asian economic miracle abruptly changed into the 1997 financial crisis, so did assessments of the region’s developmental and governance models (Aoki, 1999). In the wake of the financial crisis, many of the basic tenets of Asian models of industrialisation have been questioned (Garran, 1998). Once viewed as paragons for other regions to follow (World Bank, 1993), East Asian economies are now often portrayed as fundamentally flawed and in need ‘*systemic restructuring*’ (Claessens, 1998). As such, there have been inevitable calls for fundamental financial and corporate sector reform (Prowse, 1998), the strengthening of financial markets (Goldstein, 1998), and an end to government led industrial policy (Henderson, 1998) along the lines of the so-called “*Anglo-American model*” (Aoki, 1999).

In this regard, there has developed a broad consensus in policy circles that ineffective corporate governance was one of the root causes of the financial crisis (Prowse, 1998; Sandstrom, 1998; Maher and Andersson, 1999). Some of these analyses draw conclusions which are quite sweeping in scope and hold the 1997 financial crisis as an indictment of the personalised and relational corporate governance commonly found in East Asia and a

*Acknowledgements are due to Pursey Heugens, Raymond van Wijk, and Erwin van Gulik for their helpful discussions. The usual disclaimer applies; any errors that may remain are the sole responsibility of the authors.

vindication of arms-length governance found in the U.S. (Rajan and Zingales, 1998). On the other hand, other scholars argue persuasively that such generic analyses based upon 'Western' theories, cannot adequately explain Asian organizing principles (Biggart and Hamilton, 1992). In this regard, a large body of research exists which emphasize in their analyses the unique institutional structures (e.g. Hamilton and Biggart, 1988), cultures (e.g. Hall and Xu, 1990; Redding, 1990) and business systems (Whitley, 1992) found in East Asia.

As such, much of the literature dealing with the governance of East Asian industrial organization is characterised by a dichotomy between polar positions. On one side of the debate are economists and international agencies utilising a techno-economic rationality and offering "best practice" solutions. On the other side of the debate are scholars that emphasise sociocultural factors and see governance and organising principles as products of deeply embedded and unique cultures and histories (Granovetter, 1985; Dore, 1998). Proponents of the latter view are, properly, quite sceptical of unreflective applications of foreign answers to local problems (Aoki, 1999).

This paper charts a middle course between theories that focus on context and those that emphasise techno-economic rationality and the power of markets. Both context specific factors and techno-economic rationality matter. In our view, national systems of corporate governance are comprised of evolving institutional structures designed to exploit the advantages of the corporate form of organization while mitigating against concomitant agency costs in a manner consistent with a society's history legal, political and social traditions. Through both formal and informal means, a system of corporate governance embodies a particular network of economic incentives and disincentives that shape corporate behaviour. Viewed in such a manner, a system of corporate governance is itself integral to the context in which corporate decisions are made.¹

In the pages that follow, we explain how the incentive structures embodied in different systems of corporate governance influence the development of capabilities and strategic assets in the firms which are embedded in that system. Relatedly, we focus specific attention on the merits and limits of the personalised and relational governance models which dominate many economies in East Asia (Claessens et al., 1999; La Porta, Lopez-de-Silanes, and Shleifer, 1999). In the next section, we integrate research from the corporate governance literature with evidence from the strategic management and organisational theory literatures regarding the development of firm-level capabilities. We begin Section 2 by identifying and describing three archetypal national governance systems, which can be termed Managerial, Alliance and Personal Capitalisms. In closing Section 2, an explanation and some general observations are offered regarding how prevailing corporate governance structures influence the development of firm-level capabilities. In Section 3–5, more detailed examinations of the incentive and institutional structures of Managerial, Alliance and Personal Capitalisms are provided towards the end of explaining how these structures tend to produce firms with both inclinations and disinclinations towards the development of particular capabilities and strategic assets.

In Section 6, we discuss some implications stemming from our analyses of Managerial, Alliance and Personal Capitalisms. Insofar as these archetypes tend to produce firms with distinctive capabilities and resources, each has inherent strengths and weaknesses. In closing

the paper, we discuss how the principle of requisite variety implies that robust and diversified economies require correspondingly diverse sets of institutional structures. Viewed in this light, the dominance of Personal Capitalism in much of East Asia is reflected in both the successes and failures of the region's firms and economies. Rather than concluding that any one archetype is best, our comparative institutional approach highlights the risks of excessive reliance on any one approach.

2. Governance systems and firm capabilities: Towards a synthesis

At its most general level, corporate governance can be conceived as a socially constructed force-field of driving and preventing forces that shape a firm's strategic behaviour (Lewin, 1951). A society's corporate governance system is part of a wider institutional structure that regulates the relationship between the executives who control the organisation's resources and activities and those social and economic stakeholders that possess a legitimate vested interest in the firm's activities (Pfeffer and Salancik, 1978). Viewed as such, governance systems represent a fulcrum upon which organisation action and the nexus of stakeholder interests are balanced.

Owing to numerous differences in their historical development (Chandler, Amatori, and Hikino, 1997), institutional (Hamilton and Biggart, 1988) and cultural norms (Cookson, 1997), resource endowments (Hymer, 1960), and political and legal traditions (Roe, 1994), very different governance systems, or "*philosophies*" (Fukao, 1995:34) have evolved around the world to address the relationship between the firm and society. While every society's system of corporate governance has its own idiosyncratic features and character (Gedajlovic and Shapiro, 2001), the arrangements found in capitalist economies generally reflect a distinctive blend of three archetypal governance philosophies which can be termed as Managerial Capitalism, Alliance Capitalism, and Personal Capitalism respectively. While it is tempting to describe existing systems of governance as pure embodiments of these archetypes, reality is not so neat and most nations have elements of two or three of the archetypes. For instance, in Germany many large firms belong to the bank led alliance system that co-exists with, and complements the robust *mittelstand*, the mid-sized family firm sector that is the epitome of Personal Capitalism (Sabel, 1988).

Figure 1 distinguishes between underlying governance philosophies along three inter-related dimensions: shareholder versus stakeholder orientation, arm's length as opposed to relational contracting and the separation versus the coupling of ownership and control.

The shareholder-stakeholder dimension reflects the fact that each society's governance system reflects an underlying normative conception concerning the nature of its firms as well as the rights and responsibilities it affords different stakeholders (Conrad, 1982; Molz and Gedajlovic, 1992). In doing so, corporate governance defines the distribution of power among stakeholders and reflects profoundly held social norms regarding the appropriate interaction of those parties (Greenspan, 1999). Stakeholder oriented systems tend to view the corporation as a socially significant institution, a natural product of social needs and pressures that serves the interests of multiple stakeholders. On the other hand, shareholder systems see the corporation as an *expendable tool* which is subordinate to the interests of its owners (Selznick, 1957).

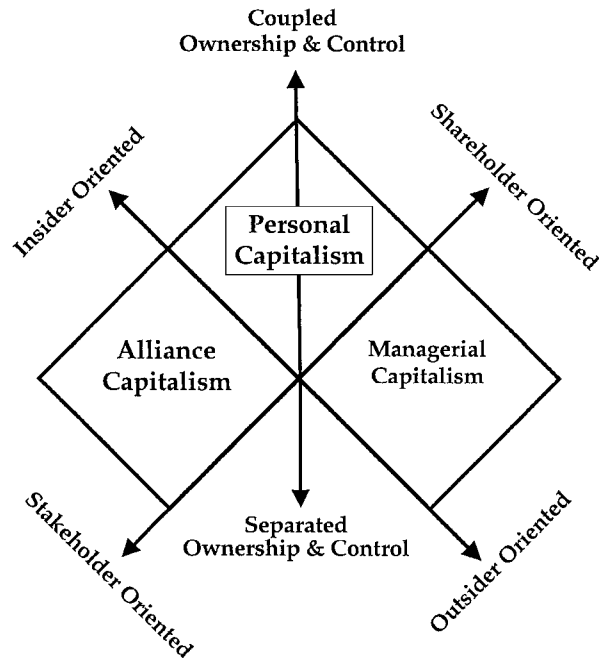


Figure 1. Systems of corporate governance.

While the shareholder-stakeholder dimension describes the size and composition of the *organisational coalition* (Cyert and March, 1963), the arm's length versus relational dimension reflects the extent to which the rules governing the interaction between key stakeholders are governed by relational norms or formal contracts (Rajan and Zingales, 1998). Systems tending towards the arm's length side of the continuum emphasise making transactions publicly transparent and on the establishments of formal mechanisms for enforcing contracts and settling disputes (Williamson, 1991). In such arms length systems, decision making tends to be conducted in a more calculative and rationalistic manner (Granovetter, 1985). In contrast, more relational oriented systems tend to distinguish between insiders and outsiders in terms of information dissemination and use prevailing patterns of authority (Hamilton and Biggart, 1988) and social norms (Gerlach, 1992) to define business relations.

The coupled versus separated ownership and control dimension reflects the extent to which managerial, financing and risk bearing functions are carried out by specialised agents (Berle and Means, 1932; Chandler, 1977; Fama and Jensen, 1983). In systems characterised by the coupling of ownership and control, firms are managed by their majority owners (Chandler, 1990). In such a system overriding responsibility for management and corporate financing rests with the majority owners. Accordingly, risk is also concentrated in their hands. In contrast, systems characterised by the separation of ownership and control are run by professional managers who act as agents with little, or no ownership stake (Chandler, 1990) and are charged with operating the firm on behalf of their principles (Berle and Means, 1932). In such a system, professional managers handle management functions

while corporate financing and risk bearing functions are carried out by shareholders (Fama and Jensen, 1983).

There are broad similarities and differences that cut across the three archetypal governance philosophies depicted in figure 1. For instance, Managerial Capitalism, which characterises many aspects of the systems of governance found in the U.S. and the U.K., differs from either Alliance, or Personal Capitalism in terms of its use of arm's length as opposed to relational control mechanisms. On the other hand, it shares a shareholder orientation with economies such as Hong Kong and Taiwan, which tend towards Personal Capitalism. It also shares a tendency to separate ownership and management functions with the Alliance Capitalism archetype that captures many aspects of the systems in place in Germany and Japan.

Similarities and differences are also apparent when comparing Japan's characteristic Alliance Capitalism with the Personal Capitalism found elsewhere in East Asia. That is, Alliance and Personal Capitalism share a common relational orientation, but these relations are conditioned by quite different norms regarding shareholder and stakeholder rights. In systems of Personal Capitalism, authority structures are unidirectional and clear insofar as the organisation is considered fundamentally subordinate to the interest of the owner-manager and his or her family (Whitely, 1992; Kao, 1993; Fukuyama, 1995; Weidenbaum and Hughes, 1996). In contrast, relations characteristic of Japanese (and German) forms of Alliance Capitalism are based on reciprocal power and dependence among a broad array of organisational stakeholders (Gerlach, 1992; Roe, 1994).

A central tenet of this paper is that the incentive structures which underlie each of the three governance styles portrayed in figure 1 engender firms with both distinctive inclinations and disinclinations towards the development of particular capabilities and strategic assets. This issue constitutes the focus for the remainder of the paper.

Common themes are apparent in economic and resource-based theories of the firm. Economic theorists have described organisations as a series of principle-agent relations (Jensen and Meckling, 1976), a system of voluntaristic exchange (Alchian and Demsetz, 1972) and as a nexus of treaties (Aoki, Gustaffson, and Williamson, 1985). Similarly, resources based theories of the firm have described organisations as bundles of resources (Wernerfelt, 1984), competencies (Prahalad and Hamel, 1990), or routines (Nelson and Winter, 1982). Despite these obvious similarities, economic theories of organisation have been comparatively silent on the issue of firm-level capability creation (Williamson, 1999).

This is an interesting gap in the literature since both agency theory (Alchian and Demsetz, 1972) and transactions cost economics (Williamson, 1985) take it as axiomatic that the way a firm is managed and enabled to complete is effected by its governance structure. That is, corporate governance specifies both who will control the firm and the nature of constraints and incentives facing senior decision-makers. The goals of the dominant ownership group are important in shaping enterprise growth, profit, and product market scope (Gerlach, 1992; Gedajlovic and Shapiro, 1998). The package of incentives applied to senior managers influences their risk preferences (Amihud and Lev, 1981), the use and availability of financial resources (Jensen, 1989) as well as cost containment (Jensen and Meckling, 1976). The management of these factors clearly effects the firm's capacity to develop and preserve capabilities that are a source of competitiveness.

Another connection between governance and capabilities literatures is their focus upon strategic assets and asset specificity as sources of firm efficiency and competitive advantage. A common theme in capability based theories of the firm is the process through which managers utilise the assets available to them. For example, Nelson and Winter's (1982) evolutionary perspective emphasises investment and production routines, that is, the unique skills managers develop toward managing the financial and physical assets at their disposal. Teece (1998) sees the creation of dynamic capabilities as a function of properly aligned and crafted governance structures. The ability to build and protect intangible assets, like brand equity and proprietary management systems, such as those utilised by franchise systems, is intimately related to the structure of contractual arrangements (Brickley and Dark, 1987; Carney and Gedajlovic, 1991). More generally, a firm's governance determines the incentive structure governing relations between management and other organisational stakeholders (Pfeffer and Salancik, 1978; Aoki, 1984) and conditions the amount and types of financial resources that a firm may secure (Williamson, 1985; Gerlach, 1992; Prowse, 1996). In doing so, a governance system delimits the set of assets, activities, and capabilities the firm has the opportunity to develop.

In Sections 3–5, we elaborate on the relationship between corporate governance and firm capabilities by providing a more detailed examination of the incentive and institutional structures of Managerial, Alliance and Personal Capitalisms.

3. Governance and firm capabilities under managerial capitalism

Problems faced by arms-length investors stemming from the separation of ownership and control as well as the co-optation of many boards of directors by managers has spurred the development of a variety of market-based mechanisms designed to constrain potentially self-serving managerial behaviour (Walsh and Seward, 1990). For example, Jensen (1989) traces the emergence of active markets for corporate control and the creation of financial instruments such as junk bonds directly to the problems inherent in monitoring managers.

The efficacy of such market based mechanisms are contingent upon the efficiency of stock markets, which must be able to accurately and reliably provide a value, or a price, for a firm's stock. Inefficiencies in the valuation process create opportunities for self-interested manipulation by managers or other firm insiders. Thus, efficient markets require a related soft-financial market infrastructure (Khanna and Palepu, 1999) that includes accounting and disclosure standards that accurately and publicly portray the condition of the firm, a legal system that reliably enforces contracts, and bankruptcy procedures that stipulate how various stakeholder claims will be resolved (La Porta et al., 1999). In the aggregate, a fully developed soft financial infrastructure promotes the creation and wide use of standardised and highly specialised instruments that can be confidently traded in open markets. This market infrastructure provides the seedbed for the growth of many firm-level capabilities.

Large and liquid markets in public equities provide investors with both liquidity and the opportunity to participate in the fruits of long-term investment. The central strength of this model is that firms with profitable opportunities of any scale or scope have access to the funds to realise projects. In such a context, organisations depend upon capital

from arm-length investors which promote the establishment and development of efficiently scaled functional capabilities in research, production and marketing and logistics (Chandler, 1990) and the managerial routines (Nelson and Winter, 1982) to co-ordinate these functions. Penrose (1959) recognised that such functional organisation leads to improvements in management and productivity that produce unique and valuable capabilities to the originating organisation. As such, the ongoing process of spontaneous improvements in firm-specific capabilities provides an internal dynamic promoting the growth of the firm.

However, as recognised by Williamson (1991), the development of firm-specific functional expertise within managerial hierarchies is not costless. Indeed, the bureaucratic costs of co-ordination, internal auditing and weak internal incentives impose an upper limit on the growth of firm (Williamson, 1985). Such bureaucratic costs may be especially detrimental to the competitiveness of firms in markets where the need for specialised assets is low and where market demand is highly variable. Accordingly, managers must balance the benefits of developing specialised capabilities such as those stemming from firm-specific knowledge against the bureaucratic costs of internalisation. Consequently, managers often face a fundamental choice between developing specialised and idiosyncratic assets, resources and capabilities, or contracting with arm's length trading partners through the medium of markets to acquire generic and re-deployable ones.

In systems of Managerial Capitalism, a highly calculative rationality is necessarily brought to decisions regarding the efficient boundaries of a firm because of the constraints imposed by arm's length investors and capital markets (Jensen, 1989). That is, the decision to devote financial capital to the development of specific resources, or capabilities is vetted by the organic rationality of capital markets. In scientific industries like pharmaceuticals and chemicals (Henderson and Cockburn, 1996), in scale intensive industries such as oil exploration and mineral extraction (Joskow, 1988; Chandler, 1992) and in industries where co-asset specificity efficiencies are high (Teece, 1986), rationally delineating efficient firm boundaries is a key advantage.

Additionally, since the demands for transparency and accountability in managerial firms requires that choices be made on the basis of norms of rationality, business dealings characterised by nepotism, favouritism or venality are normally proscribed. For example, arm's length investors naturally demand that managers utilise merit as the main criterion in hiring and promotion decisions. Similarly, in the exercise of social responsibility, managers must show that their policies are not to the detriment of shareholders.

Chandler (1990) argues that managerial firms enjoy a competitive advantage in industries characterised by technological dynamism, capital intensity and economies of scope and scale where the application of calculative or rationality norms are the most beneficial. On the other hand, while the primacy of rationality may be *de rigueur* in a context where professional managers act as agents for arm's length investors, it puts such firms at a disadvantage in geographic markets where norms of rationality are subordinated to other ideals, or in product-markets where the exchange of political favours is endemic (Khanna and Palepu, 1997). Additionally, firms conditioned by the governance arrangements of Managerial Capitalism may be at a competitive disadvantage in industries of a more local, or regional scale where rationality norms may be less important than relational, or affiliational norms (Fukuyama, 1995).

While a fundamental strength of economies conditioned by Managerial Capitalism is the efficient allocation of equity capital by arm's length investors, a commensurate weakness is under-investment by other stakeholders; in particular suppliers of labour and other business inputs. In Barnardian terms, since norms of calculative rationality prevail, and since inducements are tilted towards providers of capital rather than other stakeholders, the contribution of these other stakeholders can be expected to be rather low (Barnard, 1938).

In this regard, the rationalistic rather than relational basis for firm boundary decisions undoubtedly dampens the incentive of supplier firms to develop co-specific assets that could provide inter-firm efficiencies, but which would also create the opportunity for hold-up and rent expropriation (Williamson, 1985). Similarly, the calculating and contractual orientation brought by managerial firms to labour relations may hamper their capacity to develop levels of trust and long-term commitment from labour in industries characterised by complex manufacturing processes where training and the acquisition of firm-specific skills by labour can be a decisive advantage (Mayer, 1996).

The weaknesses of Managerial Capitalism with respect to soliciting investment from stakeholders is thrown into sharp relief when juxtaposed with the accomplishments in this area by German and Japanese forms of Alliance Capitalism.

4. Governance and firm capabilities under alliance capitalism

Under Alliance Capitalism, governance provide stakeholders such as banks, affiliated companies and labour with both the capacity and means to reciprocally monitor each other through a multiplicity of equity, debt and commercial ties (Gerlach, 1992). Banks who are often a firm's largest shareholder are more interested in the firm's financial stability, the sale of professional services and the continuation of (debt financed) growth, rather than market returns. Similarly, affiliated firms which are shareholders are commonly more interested in mutual assistance and in cementing and expanding their range of commercial ties such as the provision of complementary assets, access to superior technology, or an outlet for their products rather returns on their equity investment. Above all, almost all stakeholders including those who reciprocally hold each other's shares are interested in preserving and growing relations with each other. Such shareholders are viewed as 'stable' or relationship investors in contrast to the arm's length 'market' investors found in systems of Managerial Capitalism.

With respect to capabilities, a great strength of Alliance Capitalism is its capacity to forge long-term relations with business partners. In such a context, the investors of financial capital are not very sensitive to minor firm performance variations (Kester, 1992), which affords a firm the opportunity to adopt a longer-term orientation toward the creation and development of resources and competencies. Firms and their business partners also have the opportunity to develop trust and forbearance with respect to inter-firm transfers. Most importantly firms are provided with the ability to create and invest in highly productive dedicated assets (Hill, 1993) that are advantageous in industries that are characterised by technical complexity. Relative to the price-sensitive firm boundary decisions evident in Managerial Capitalism, Alliance Capitalism provides the necessary slack for the elaboration of more intricate inter-firm relations.

Governance in this system most often follows norms of consensus. Consequently strategic decision making appears ponderous, but capital allocation is sufficiently patient that firms may focus upon the long-term development of functional competencies. Stock markets under systems of Managerial Capitalism may penalise firms that engage in sustained expenditures upon assets with no immediate prospect of return. In contrast, the concentration of blocks of equity in the hands of business affiliates offers a guarantee of inaction (Kester, 1992) if stock price falls allowing firms to adopt projects with long payback periods.

The reciprocal nature of the incentives under Alliance Capitalism governance may be expected to produce firm advantages in capital intensive, technologically complex industries characterised by predictable or continuous environmental changes that do not disrupt the elaborate lattice of inter-firm arrangements. On the other hand, incentives in Alliance Capitalism create difficulties for firms in industries facing discontinuous change and uncertainty. Uncertainty and discontinuous change create risks that suppliers of capital to alliance firms are not well equipped to bear and pose demands for restructuring that stakeholders are often loathe to confront (Dore, 1998). Generally, the culture of reciprocity and the norms of stakeholder consultation attenuate innovation and restructuring processes. Alliance Capitalism that has thrived under conditions of national economic growth and construction has not yet been tested by sustained periods of market decline and industry restructuring.

Systems of Alliance Capitalism are successful at incremental change, as indicated by their commitment to operational continuous improvement, but are less inclined to initiate frame-breaking innovations (Egelhoff, 1993). Alliance Capitalism has not been very successful in creating firms that can harness the full potential of the new economy and effectively motivate knowledge workers who tend towards individualism (Fukuyama, 1995). Similarly, such firms have not been overly successful in engendering innovation based upon entrepreneurship (Yoshimura and Anderson, 1999). In this regard, incentives stemming from multi-stakeholder relations and the need for parties to consider the impact of their action on others may reinforce the cultural dispositions of a society which engendered Alliance Capitalism.

Firms which rely on the bank-dominated financial systems of Alliance Capitalism may be at disadvantage to firms with better access to private and public equity in high risk/payoff economic endeavours and in many technologically dynamic lines of business which require very large investments in intangible assets. Such a disadvantage arises from structural difficulties banks have in funding high-risk projects and in providing capital for intangible assets that have uncertain salvage values and cannot easily be collateralized.

In cases where banks make loans to high risk-high return projects, the nature of debt contracts limit their upside to the repayment of the principal and an agreed upon interest payment. On the other hand, if the project fails, they lose their investment (Harris and Raviv, 1991). Since banks cannot profit from the upside return of highly successful projects, but bear the full costs of failed projects, bank debt is structurally unsuited to the high-risk uncertainties of lending to start-up firms and to projects at the initial stages of a product life cycle (Prowse, 1996).

Moreover, firms which are largely limited to bank-mediated financing may be at a disadvantage because banks are prone to periodic liquidity crises that can be sparked by

relatively minor firm failures, but which nonetheless precipitate demands by depositors for immediate withdrawals (Miller, 1998). To assure depositors of their stability, long-term lending by banks is normally secured against collateralized assets with substantial residual market values. Firms that have an established track record and have developed good relations with a bank may procure the capital necessary to develop moderately high levels of asset specificity, but banker prudence demands that minimum liquidity levels be maintained. Consequently, bank dominated financial systems tend to be poor at funding small firms, which do not have a long track record, and to businesses seeking capital to build intangible assets or undertake projects with distant time horizons and highly uncertain payoffs. Facing bank conservatism on the one hand and relatively underdeveloped and illiquid private and public equity markets on the other, innovators and small high-technology firms may have difficulty securing the funding necessary for the development of firm-specific resources and capabilities (Prowse, 1996).

One commonly employed solution to problem of funding of emergent high-tech businesses in the context of bank dominated financial systems has been for governments to offer loan guarantees. Unfortunately, this solution suffers the drawback of creating a strong potential for moral hazard. If the state, either implicitly or explicitly, provides loan guarantees, the incentive of bankers to screen and monitor risky projects is reduced. Under these circumstances, projects to develop intangible resources and capabilities with the potential for long-term payback enjoy a better chance of funding. On the other hand, the incentive of banks to develop the specialised routines necessary to monitor loans to these sorts of projects is low.

In short, because of the moral hazard problem, banks have weak incentives to discriminate between good and bad risks when government loan guarantees are in place. As such, the near term aggregate effect of government programs offering loan guarantees is commonly over-lending and over-investment (McKinnon and Pill, 1998). While more liberal bank lending may assist capability development in some firms, it is also likely to strain the banking system as a whole because bad risks eventually accumulate into *de facto* non-performing debt. The need to write off non-performing debt can be postponed during periods of high economic growth, but the inescapable economics of bank lending eventually demands an accounting that may result in sobering crises of confidence and reinforced conservatism.

The primary of stakeholders in Alliance Capitalism promotes focal firm growth and strategic persistence over profitable performance. While arm's length shareholders are primarily interested in stock market returns, stakeholders benefit from firm growth, stability and relational continuity. For example, labour tends to favour employment security, banks favour firm stability and interest payments on outstanding debt, local communities benefit from tax revenues stemming from the firm's activities, and the value of a supplier or customer relationship tends to increase over time. These incentives undoubtedly influence stakeholder preferences with respect to alternatives for capability creation.

This effect is likely to be especially pronounced during periods of business contraction. For example, stakeholders in an under-performing firm confronted with a strategic choice between a radical strategy with a high return and some chance of failure and a conservative strategy with a lower return and little or no chance of failure may very well favour the latter

(Meyer and Zucker, 1989). Stakeholders prefer conservative strategies because the upside of high returns will largely accrue to others and since the risk of relationship threatening failure is to be avoided. The conservative or risk-avoiding propensity of stakeholders in Alliance Capitalism is strengthened if business affiliates have engaged in crafting off-balance sheet arrangements such as loan guarantees or other covenants which are only activated in the event of business failure.

In short, the elaboration of governance mechanisms devised to support co-operative stakeholder relationships cast a shadow of inertia over investments and strategies that risk disrupting the status quo. As such, firms characterised by an Alliance Capitalism form of governance may lack the capacity to effectively engage in radical restructuring, downsizing, or a strategic re-orientation. While shareholder based systems are structurally biased towards producing profits as opposed to growth, the opposite is true of stakeholder systems. Importantly, stakeholder systems also depend upon growth to maintain and expand employment levels and mutually advantageous commercial ties. As a consequence, firms governed by norms of Alliance Capitalism may face extreme difficulty in declining markets and in other settings where restructuring disruptive to the incumbent organisational coalition is necessary.

5. Governance and firm capabilities under personal capitalism

Personal Capitalism is not distinguished by the separation, but by the *coupling* of ownership and control. Personal Capitalism refers to '*firms managed by individuals or by small numbers of associates, often members of founders' families, assisted by only a few salaried managers, or they (are) federations of such firms*' (Chandler, 1990:236). Control in the first generation of these firms typically rests with the founding entrepreneur and in later generations with a group of family members and trusted business associates. With the notable exception of Japan, variants of Personal Capitalism are dominant in most of the capitalist economies of East Asia. Such governance arrangements are also present in many other areas of the world and span developed (La Porta et al., 1999) as well as developing and transition economies (Khanna and Palepu, 1997; Ghemawat and Khanna, 1998).

Scholars and analysts have praised many aspects of firms characterised by Personal Capitalism such as the Family Business Groups (FBGs) found in Hong Kong, Taiwan (Hamilton and Biggart, 1988; Whitley, 1992) and across much of Southeast Asia. These firms have been described as the entrepreneurial engine behind the post WWII East Asian economic miracle (Redding, 1994; Seagrave, 1995; Weidenbaum and Hughes, 1996). East and Southeast Asian entrepreneurs have developed a reputation for cost-efficiency and flexibility as contract manufacturers (Carney, 1998a) and as first-movers in Mainland China (Vogel, 1988).

Since personally managed firms are often situated within spatially concentrated production networks and spatially dispersed distribution networks, they are highly adapted to dynamic and incrementally innovative product-markets (Whitley, 1992; Glasmeir, 1994). Such firms are especially well suited to networked production and to industrial settings where their low managerial overhead and their ability to efficiently organise low-cost labour

pools in non-complex technologies is a key competitive advantage (Lui and Chui, 1994; Redding, 1994; Carney, 1998b).

Coupling ownership and control obviates the classic separation of the ownership and control agency problem (Berle and Means, 1932) where salaried professional managers with little, or no ownership in the firm they manage use the firm's resources to pursue their own agenda's at the expense of shareholders (Jensen and Meckling, 1976). In contrast, since they have a direct claim on their firm's residual income (Alchian and Demsetz, 1972), owner/managers have a strong incentive to ensure that capital is deployed sparingly and used efficiently and that indirect production costs are tightly managed (Brickley and Dark, 1987). In addition, the incentive effects of direct ownership reduce the need for third party monitoring and supervision (Carney and Gedajlovic, 1991). Indeed, when compared with enterprises operated by salaried professional managers with their characteristic elaborated hierarchies, high managerial overheads and weaker incentives with respect to direct cost control, the owner managed firm is a model of parsimony.

Research has also highlighted some disadvantages associated with systems of Personal Capitalism. First, insofar as the tight coupling of ownership and control allows owner/managers to attenuate constraints to their discretion stemming from arm's length investors (Morck, Shleifer, and Vishny, 1988), it has been argued that firms characterised by Personal Capitalism tend to exhibit the particularistic values of their owner/managers (Demsetz and Lehn, 1985; Chandler, 1990; Kao, 1993; Fukuyama, 1995). Chandler (1990) has argued that the personalised character of family business is often manifested in terms of the selection of top management on the basis of family ties, rather than on the basis of professional expertise. Many researchers have described and documented this tendency among East Asian FBGs in particular (e.g., Wong, 1988; Whitely, 1992; Fukuyama, 1995; Weidenbaum and Hughes, 1996). Kao (1993) bluntly suggests that among such firms, an incompetent relative will be preferred to a competent outsider.

Chandler (1990) contends that the lack of managerial capacity limits the ability of personally managed firms to compete internationally due to a lack of co-ordination and monitoring capabilities needed to manage geographically distant and dispersed business activities. Chandler has also argued that the personalised character of firms with coupled ownership and control may have the effect of reducing a firm's ability to develop the multiple functional capabilities needed to compete in oligopolistic product markets (Chandler, 1992). There may also be limited managerial capacity to co-ordinate the activities of functional areas or perform detailed capital budgeting and such firms may be at disadvantage in capital intensive and technologically dynamic industries. Perhaps reflecting a consensus in the literature regarding FBGs, Redding concludes that they are governed by '*values which facilitate the initiating phase of entrepreneurship but which place barriers to the higher levels of co-ordination necessary for growth of the individual firm to large scale*' (Redding 1990:109).

Another disadvantage of Personal Capitalism cited in the literature relates its inefficient risk bearing properties. In this regard, the seminal work of Fama and Jensen (1983) indicates that separating ownership from control has significant advantages in terms of risk bearing insofar as it allows for risk to be borne by widely dispersed and diversified shareholders rather than being concentrated in the hands of owner/managers (Shleifer and Vishny, 1997).

Such a concentration of risk increases the firm's effective cost of capital (Fama and Jensen, 1983) and may result in risk averse strategic behaviour (Chandler, 1990). Such an analysis is consistent with studies which have found that FBGs tend to be generally risk averse (Kao, 1993) and to favour investments in generic rather than specialised assets (Redding, 1994). Similarly, FBGs have been found to prefer projects with short payback periods (Chen, 1995; Limligan, 1986).

Personal Capitalism also has negative implications regarding a firm's ability to raise financial capital. At the most fundamental level, this occurs because the maintenance of coupled ownership and control (and its associated incentive benefits), requires that firms rely primarily on the personal wealth of owners or internally generated cash flow to fund new projects. As such, personally managed firms may face a financing constraint not confronted by firms with widely dispersed ownership. Additionally, firms with coupled ownership and control may have difficulty raising capital on favourable terms since arms-length minority investors run the risk that majority owners may use their control rights to expropriate private benefits of control at their expense (Shleifer and Vishny, 1997; La Porta et al., 1999). One recent study provides strong empirical support for this proposition in the context of most East Asian economies insofar as family ownership is found to be associated lower stock market valuations (Claessens et al., 1999).

The preceding discussion suggests that the coupling of ownership and control characteristic of Personal Capitalism has both advantages and disadvantages with respect to capability creation. On the one hand, coupling ownership and control creates a powerful incentive for owner-managers to manage their operations efficiently and profitably. On the other hand, such tight control also allows majority owners to adopt inefficient practices that reflect their own particularistic values and interests. In addition, the coupling of ownership and control has significant negative implications regarding a firm's ability to raise capital and manage risk.

Firms characterised by Personal Capitalism have a tendency to develop a conglomerate product market or group structure. Fukuyama (1995) notes that FBGs have performed best in light manufacturing businesses such as apparel, toys, electronic sub-components and computer peripherals and do less well in industries that are capital intensive. Yoshihara (1988) presents evidence, which indicates that relative to other indigenous and foreign firms operating in East Asia, firms characterised by Personal Capitalism hold dominant positions in light manufacturing and in banking and have a substantial presence in property development and import/export trade. In contrast, such firms play only a minor or secondary role in the more capital-intensive sectors of petrochemicals, metals and oil exploration. Redding (1990) provides corroborating support, and argues persuasively that FBGs have a marked strategic preference for projects characterised by labour-intensive, rather than capital-intensive technologies.

These product market choices reflect the advantages and disadvantages of Personal Capitalism. As noted above, since owner/managers appropriate residual returns they have a strong incentive to maximise accounting profits and to develop the capacity for tight cost control (Alchian and Demsetz, 1972; Jensen and Meckling, 1976). These incentives are particularly amenable to activities such as labour intensive manufacturing and low

value-added stages of production such as final assembly where the variable costs of production are a large proportion of total costs.

While equity crossholding under Alliance Capitalism supports investment in highly specialised inter-firm processes, the crossholdings found in systems of Personal Capitalism do not serve the same governance function since they are not symmetric and are ultimately pyramided into the hands of a single owner (La Porta et al., 1999; Claessens et al., 1999). The diversified group structures under Personal Capitalism facilitate financial control, but not operational and product market relationships. Accordingly, asset regimes within business unions are not specialised or locked-in to the operational needs of affiliated businesses. What such asset regimes lose in potential productivity gains, they make-up in flexibility and capacity for redeployment, a feature that is central to many adaptive-entrepreneurial capabilities (Chen, 1995). Thus assets are typically generic and can be readily deployed to respond to shifts in fashion and volume (Redding, 1994). In some industries the resulting economies from full capacity utilisation over a trade-cycle may outweigh the productivity advantages of more dedicated assets that lay unused during periods of low demand.

Conglomerate diversification and the absence of family firms in capital intensive industries stems from a single common incentive, namely the inefficient risk bearing properties of the family firm. Incentives in Managerial and Alliance Capitalisms favour concentrated capital expenditures in efficiently scaled production facilities, in distribution and marketing assets, and the managerial and functional expertise needed to effectively co-ordinate the two. However, the inefficient risk bearing propensities of Personal Capitalism creates incentives to avoid such a concentration of risk in a single unified enterprise. To the extent that an owner/manager's share of a firm's equity constitutes a significant portion of his or her wealth, then this equity possesses a high degree of firm-specific risk which can be reduced by creating a business with a diversified portfolio of assets. In other words, wealth preservation goals may induce owners to manage their assets as a *de facto* mutual fund (Williamson, 1975).

In sum, Personal Capitalism engenders firms with strong incentives to minimise costs and capital investment, maximise accounting profits, and develop generic flexible asset regimes. In many geographic and product market settings, firms with these characteristics are formidable competitors. On the other hand, the same firms are often encumbered with capability deficits stemming from managerial and capital constraints which limit their access to the resources needed to compete successfully in many capital intensive, high-risk, and technologically complex industries.

6. Diversity in governance systems and firm capabilities

Our analysis suggests that the utilization of diverse governance mechanisms allows for both an efficient specialization of function and a robust diversity of economic activity. To develop an economy that is diversified across a broad product market range of mature and growing industries and is robust enough to withstand external shocks, the principle of requisite variety means that accountability mechanisms of equal robustness and diversity must be devised (Ashby, 1956). The need for requisite variety explains why real world national

economies rarely correspond precisely to any archetypal governance system (Gedajlovic and Shapiro, 2001).

Even in economies in which one archetypal system dominates, other forms of corporate governance can play a complementary role. For instance, while the US system is often portrayed as the prototype of Managerial Capitalism (Chandler, 1990), salient elements of Alliance Capitalism are evident in the dynamic networks found in Silicon Valley (Miles and Snow, 1987; Saxenian, 1990). Similarly, France's system of governance embodies strong elements of both Alliance and Personal Capitalisms (De Jong, 1995; Morin, 1998) and Canada's Managerial Capitalism has distinct characteristics of Personal Capitalism (Roth, 1996). Governance systems are also dynamic and evolve over time in response to both global and local forces (Carney and Gedajlovic, in press). As such, the blend of the archetypes apparent in a national economy is also dynamic. For example, in the case of Japan where Alliance Capitalism is prevalent, we find contemporary signs of Managerial Capitalism (Fukao, 1999; Yasui, 1999) as well as vestigial traces of the pre-War family based Personal Capitalism (Gerlach, 1992). In short, it can be very misleading to equate a national economy with a single governance archetype because real world economies evince a changing blend of the three archetypal governance systems described here.

The analysis presented here underscores the virtues of maintaining a diversity of governance institutions and the limitations inherent in relying on any one archetype. Diversity in governance arrangements across *and* within national economies is important for two main reasons. First, insofar as each of the three governance archetypes incline and disincline firms towards the development of particular types of strategic assets, the reliance of an economy on any one of the governance archetypes imbues firms with the advantages of that system but to its failings as well. More subtly, governance diversity has important implications regarding the product-market competitiveness of firms. In this regard, organizational scholars take it as axiomatic that capabilities are valuable when they are scarce and are embodied in hard to emulate firm-specific routines (Markides and Williamson, 1996). On the other hand, since the capabilities of a firm strongly reflects the character of the governance system in which it is embedded, strategies and capabilities of similarly governed firms can become undifferentiated and may result in damaging hyper-competition (Porter, 1996). Henderson (1998) describes such a scenario among Asia's contract manufacturers of PC subcomponents and peripherals.

Second, reliance on any one governance system means that an economy is susceptible to cycles of booms and busts. In this respect, the East Asian 'Economic Miracle' and Financial Crisis represents cases in point. The rapid post-WWII industrialisation and economic growth of many economies in the region offers powerful testimony to the positive attributes of relational governance, but also its susceptibility to economic crises (Goldstein, 1998; Rajan and Zingales, 1998; Caprio, 1998). In contrasting East Asian economies to those of the US, Sweden and Australia, Federal Reserve Chairman Alan Greenspan cites a lack of diversity in governance institutions as a primary cause of the Asian financial crisis.

"Multiple alternatives to transform an economy's savings into capital investment offer a set of backup facilities should the primary form of intermediation fail...Before the crisis broke, there was little reason to question the three decades of phenomenally solid East Asian economic growth, largely financed through the banking system, so long as the

rapidly expanding economies and bank credit kept the ratio of non-performing loans to total bank assets low. The failure to have backup forms of intermediation was of little consequence. The lack of a spare tire is of no concern if you do not get a flat. East Asia had no spare tires." (Greenspan, 1999).

As underscored by Alan Greenspan's comments, what distinguishes East and Southeast Asian systems of governance from those found in other advanced industrial economies is not the difference between arms-length and relational contracting between financial institutions and the corporate sector. It is the predominance of the relational system in the economy at large. In this regard, our analysis suggests that reforms might be better aimed at cultivating alternative systems and governance institutions alongside existing arrangements, rather than seeking to convert existing institutions into facsimiles of the so-called "Anglo-American model." While entrepreneurs and firms can (and often do) leave home markets to migrate towards settings where governance arrangements are most conducive towards the development of the specific capabilities and resources necessary for success in a given line of business, national economies cannot.

Evidence from other parts of the world suggest that breaking the mold of dependence upon a single dominant form of governance requires less directive central planning and the decentralization of responsibility for industrial policy to sub-national units. In several countries, regional economies empowered to formulate their own industrial strategies have developed varied and specialized forms of governance which often differ markedly from that found in the broader economy (Storper and Harrison, 1991). De-centralization in Italy has produced such a diversity (Pyke, Becattini, and Sengenberger, 1990). In the 'Third Italy' provinces such as Emilia Romagna, Abruzzi and the Marches, have developed industries based upon family enterprises employing strategies of flexible specialization and financing through local cooperative institutions. Importantly, these industrial districts represent an alternative model of capitalism to the vertically integrated industrial systems found in the northern Italian provinces of Lombardy and Piedmont (Sabel, 1988). The co-existence of such distinct forms of capitalism within the boundaries of a national economy is also apparent elsewhere in Europe (Scott, 1996).

Governance diversity in the global economy provides firms and their subsidiaries with the opportunity to locate themselves where institutional arrangements are best suited towards the strategic and competitive imperatives they face (Bartlett and Ghoshal, 1988). Because governance-capability relationships are tacit and must be experienced first hand for extended periods of time, it is necessary for firms to undertake deliberate actions to absorb the lessons of alternative systems. How do regulators and public policy makers develop such tacit knowledge? Internationally active firms can play a vital role as agents of change. Insofar as managers and firms are more mobile than governments, they can perform a role as carriers of the 'genes' of institutional innovation. Khanna and Palepu (1999) describe just such a role played by Chilean firms who listed their shares on US capital markets. Vetted by strict accounting and disclosure standards and subjected to intense scrutiny from US analysts and investors, these firms subsequently spurred the development of the Chilean financial sector. In this regard, the fact that large numbers of East Asian firms have listed their shares on NASDAQ and the NYSE in recent years may be viewed with cautious optimism.

Note

1. In this respect, our exposition does not seek to explain the origins of specific governance systems because cultural and institutional theories of corporate organization already offer many valuable insights on this question (See for instance, e.g. Hamilton and Biggart, 1988; Whitley, 1990; Fukuyama, 1995).

References

- Alchian, A.A. and H. Demsetz (1972). "Production, Information Costs and Economic Organization." *American Economic Review* 62, 777–795.
- Amihud, Y. and B. Lev (1981). "Risk Reduction as a Managerial Motive for Conglomerate Mergers." *Bell Journal of Economics* 12, 605–617.
- Aoki, M. (1984). *The Co-Operative Game Theory of the Firm*. Cambridge: Cambridge University Press.
- Aoki, M. (1999). "A Note on the Role of Banking in Developing Economies in the Aftermath of the East Asian Crisis." Presented at the 1st ABCDE-Europe Conference in Paris. Washington: World Bank. June.
- Aoki, M., B. Gustaffson, and O.E. Williamson (1990). *The Firm as a Nexus of Treaties*. London: Sage.
- Ashby, W.R. (1956). *Introduction to Cybernetics*. New York: Wiley.
- Barnard, C.I. (1938). *The Functions of the Executive*. Cambridge, MA: Harvard University Press.
- Bartlett, C. and S. Ghoshal (1988). *Managing across Borders: The Transnational Solution*. Cambridge, MA: Harvard Business School Press.
- Berle, A.A. and C.G. Means (1932). *The Modern Corporation and Private Property*. New York, NY: Commerce Clearing House.
- Biggart, N.W. and G.G. Hamilton (1992). "On the Limits of a Firm-Based Theory to Explain Business Networks: The Western Bias of Neoclassical Economics." In N. Nohria and R.G. Eccles (eds.), *Networks and Organizations: Structure, Form and Action*. Boston: Harvard Business School Press, pp. 471–490.
- Brickley, J.A. and F.H. Dark (1987). "The Choice of Organizational Form: The Case of Franchising." *Journal of Financial Economics* 18, 401–420.
- Caprio, G. (1998). *Banking on Crises: Expensive Lessons from Recent Financial Crises*. Washington, DC: The World Bank, June.
- Carney, M. (1998a). "The Competitiveness of Networked Production: The Role of Asset Specificity and Trust." *Journal of Management Studies* 35, 457–479.
- Carney, M. (1998b). "A Management Capacity Constraint? Barriers to the Development of the China Family Business." *Asia-Pacific Journal of Management* 15, 137–162.
- Carney, M. and E. Gedajlovic (1991). "Vertical Integration in Franchising Systems: Agency Theory and Resource Explanations." *Strategic Management Journal* 12, 607–629.
- Carney, M. and E. Gedajlovic (2001). "The Co-Evolution of Institutional Environments and Organizational Strategies: The Rise of Family Business Groups in the ASEAN Region." *Organization Studies* 22.5.
- Chandler, A.D. (1977). *The Visible Hand: The Managerial Revolution in American Business*. Cambridge, MA: Belknap Press.
- Chandler, A.D. (1990). *Scale and Scope: The Dynamics of Industrial Capitalism*. Cambridge, MA: Harvard University Press.
- Chandler, A.D. (1992). "Managerial Enterprise and Competitive Capabilities." *Business History Review* 34, 11–41.
- Chandler, A.D., F. Amatori, and T. Hikino (1997). *Big Business and the Wealth of Nations*. Cambridge, U.K.: Cambridge University Press.
- Chen, M. (1995). *Asian Management Systems: Chinese, Japanese and Korean Styles of Business*. London: Routledge.
- Claessens, S. (1998). *Systematic Bank and Corporate Restructuring: Experience and Lessons for East-Asia*. Washington: World Bank.
- Claessens, S., S. Djankov, J. Fan, and L. Lang (1999). *Expropriation of Minority Shareholders: Evidence from East Asia*. World Bank working paper, February.
- Conrad, A. (1982). "Constitutional Rights of the Corporate Person." *The Yale Law Journal* 91, 1641–1658.
- Cookson, R. (1997). "A Whopping Explosion: A Survey of Japanese Finance." *The Economist* June 28, 1–18.

- Cyert, R.A. and J.G. March (1963). *A Behavioral Theory of the Firm*. Englewood Cliffs, NJ: Prentice-Hall.
- De Jong, H.W. (1995). "European Capitalism: Between Freedom and Social Justice." *Review of Industrial Organization* 10, 399–419.
- Demsetz, H. and K. Lehn (1985). "The Structure of Corporate Ownership: Causes and Consequences." *Journal of Political Economy* 93, 1155–1177.
- Dore, R. (1998). "Asian Crisis and the Future of the Japanese Model." *Cambridge Journal of Economics* 22(6), 773–787.
- Egelhoff, W.G. (1993). "Great Strategy or Great Strategy Implementation—Two Ways of Competing in Global Markets." *Sloan Management Review* 34, 37–50.
- Fama, E.F. and M.C. Jensen (1983). "The Separation of Ownership and Control." *Journal of Law and Economics* 26, 301–328.
- Fukao, M. (1995). *Financial Integration, Corporate Governance and the Performance of Multinational Companies*. Washington, DC: The Brookings Institution.
- Fukao, M. (1999). *Japanese Financial Instability and Weakness in the Corporate Governance Structure*. Paris: OECD.
- Fukuyama, F. (1995). *Trust: The Social Virtues and the Creation of Prosperity*. New York: Free Press.
- Garran, R. (1998). *Tigers Tamed: The End of the Asian Miracle*. Honolulu: University of Hawaii Press.
- Gedajlovic, E.R. and D.M. Shapiro (1998). "Management and Ownership Effects: Evidence from Five Countries." *Strategic Management Journal* 19, 533–553.
- Gedajlovic, E.R. and D.M. Shapiro (2001). "National Systems of Corporate Governance." *Global Focus* 13.
- Gerlach, M.L. (1992). *Alliance Capitalism: The Social Organization of Japanese Business*. Berkeley: University of California Press, pp. 143–157.
- Ghemawat, P. and T. Khanna (1998). "The Nature of Diversified Business Groups: A Research Design and Two Case Studies." *Journal of Industrial Economics* 46, 35–61.
- Glasmeir, A. (1994). "Flexibility and Adjustment: The Hong Kong Watch Industry and Global Change." *Growth and Change* 25, 223–246.
- Granovetter, M. (1985). "Economic Action and Social Structure: The Problem of Embeddedness." *American Journal of Sociology* 91, 481–501.
- Greenspan, A. (1999). Remarks Made by US Federal Reserve Chairman before to World Bank and The International Monetary Fund, Program of Seminars, Washington, DC. September 27, 1999.
- Goldstein, M. (1998). *The Asian Financial Crisis: Causes, Cures, and Systemic Implications*. Washington, DC: Institute for International Economics.
- Hall, R.H. and W. Xu (1990). "Run Silent, Run Deep: A Note on the Ever Pervasive Influence of Cultural Differences on Organizations in the Far East." *Organization Studies* 11, 596–616.
- Harris, M. and A. Raviv (1991). "The Theory of Capital Structure." *Journal of Finance* 46, 297–355.
- Hamilton, G.G. and N.W. Biggart (1988). "Market, Culture and Authority: A Comparative Analysis of Management in the Far East." *American Journal of Sociology* 94, S52–S94.
- Henderson, C. (1998). *Asia Falling: Making Sense of the Asian Crisis and Its Aftermath*. New York: Business Week Books.
- Hendeson, R. and I. Cockburn (1996). "Scale, Scope, and Spillovers: The determinants of Research Productivity in Drug Discovery." *Rand Journal of Economics* 27, 32–59.
- Hill, C.W.L. (1993). "National Institutional Structures, Transaction Cost Economizing and Competitive Advantage: The Case of Japan." *Organization Science* 6, 119–131.
- Hymers, S.H. (1960). "The International Operations of National Firms: A Study of Direct Foreign Investment." Ph.D Dissertation, Massachusetts Institute of Technology, Cambridge, MA.
- Jensen, M. (1989). "The eclipse of the public corporation." *Harvard Business Review* May–June, 67–74.
- Jensen, M.C. and W.H. Meckling (1976). "Theory of the Firm: Managerial Behaviour, Agency Costs and Ownership Structure." *Journal of Financial Economics* 3, 305–360.
- Joskow, P.L. (1988). "Asset Specificity and the Structure of Vertical Relationships: Empirical Evidence." *Journal of Law, Economics and Organization* 4, 95–118.
- Kao, J. (1993). "The Worldwide Web of Chinese Business." *Harvard Business Review* March–April, 24–36.
- Kester, C.W. (1992). "Industrial Groups as Systems of Contractual Governance." *Oxford Review of Economic Policy* 8, 24–44.

- Khanna, T. and K. Palepu (1997). "Why Focused Strategies May be Wrong for Emerging Markets." *Harvard Business Review* July–August, 41–51.
- Khanna, T. and K. Palepu (1999). "The Right Way to Restructure Conglomerates in Emerging markets." *Harvard Business Review* 77, 125–134.
- La Porta, R., F. Lopez-de-Silanes, and A. Shleifer (1999). "Corporate Ownership Around the World." *Journal of Finance* 54, 471–517.
- La Porta, R., F. Lopez-de-Silanes, A. Shleifer, and R.W. Vishny (1999). "The Quality of Government." *Journal of Law Economics and Organization* 15, 222–279.
- Lewin, K. (1951). *Field Theory in Social Science*. New York: Harper and Row.
- Limlingan, V.S. (1986). *The Overseas Chinese in ASEAN: Business Strategies and Management Practises*. Manila: Vita Development Corp.
- Lui, T.L. and S.A. Chui (1994). "A Tale of Two Industries: The Restructuring of Hong Kong's Garment-Making and Electronic Industries." *Environment and Planning* 26, 53–70.
- Maher, M. and T. Andersson (1999). *Corporate Governance: Effects on Firm Performance and Economic Growth*. Paris: OECD.
- Markides, C.C. and P.J. Williamson (1996). "Corporate Diversification and Organizational Structure: A Resource-Based View." *Academy of Management Journal* 39, 340–367.
- Mayer, C. (1996). "Corporate Governance, Competition and Performance." *OECD Economic Studies* 27, 7–34.
- McKinnon, R.I. and H. Pill (1998). "International Overborrowing: A Decomposition of Credit and Currency Risk." *World Development* 26, 1267–1282.
- Meyer, M.W. and L.G. Zucker (1989). *Permanently Failing Organizations*. Newbury Park, CA: Sage.
- Miles, R.E. and C.C. Snow (1987). "Network Organization: New Concepts for New Forms." *California Management Review* 28, 62–73.
- Miller, M.H. (1998). "Financial Markets and Economic Growth." *Journal of Applied Corporate Finance* 11, 8–14.
- Molz, R. and E.R. Gedajlovic (1992). *Transitional Economies, Corporate Theory and Privatization. Advances in International Comparative Management*. Greenwich, JAI Press, Vol. 7, pp. 139–155.
- Morck, R., A. Shleifer, and R.W. Vishny (1988). "Management Ownership and Market Evaluation: An Empirical Investigation." *Journal of Financial Economics* 79, 842–852.
- Morin, F. (1998). "The Privatization Process and Corporate Governance. The French Case." *Corporate Governance, State Owned Enterprises and Privatization*. OECD Proceedings. Paris Organization for Economic Cooperation and Development, pp. 63–87.
- Nelson, R.P. and S.G. Winter (1982). *An Evolutionary Theory of Economic Change*. Cambridge, MA: Harvard University Press.
- Penrose, E.T. (1959). *The Growth of the Firm*. New York: Wiley and Sons.
- Pfeffer, J. and G.R. Salancik (1978). *The External Control of Organizations: A Resource Dependence Perspective*. New York: Harper and Row.
- Porter, M.E. (1996). "What Is Strategy?" *Harvard Business Review* November–December, 61–78.
- Prahalad, C.K. and G. Hamel (1990). "The Core Competence of the Corporation." *Harvard Business Review* 68, 79–91.
- Prowse, S. (1998). *Corporate Governance: Emerging Issues and Lessons from East Asia*. Washington: World Bank.
- Prowse, S.D. (1996). "Corporate Finance in International Perspective: Legal and Regulatory Influences on Financial System Development." *Federal Reserve Bank of Dallas Economic Review* Third Quarter, 2–16.
- Pyke, F., G. Becattini, and E. Sengenberger (1990). *Industrial Districts and Inter-Firm Co-operation in Italy*. Geneva: International Institute for Labour Studies.
- Rajan, R.G. and L. Zingales (1998). "Which Capitalism? Lessons from the East Asian Crisis." *Journal of Applied Corporate Finance* 11, 40–48.
- Redding, S.G. (1994). "Competitive Advantage in the Context of Hong Kong." *Journal of Far Eastern Business* 1, 71–89.
- Redding, S.G. (1990). *The Spirit of Chinese Capitalism*. New York: De Gruyter.
- Roe, M.J. (1994). *Strong Managers, Weak Owners*. Princeton: Princeton University Press.
- Roth, C.W. (1996). "Concentration of Ownership and the Composition of the Board: An Examination of Canadian Publicly Listed Corporations." *Canadian Business Law Journal* 26, 226–254.

- Sabel, C. (1988). "The Resurgence of Regional Economies." In P. Hirst and J. Zeitlin (eds.), *Reversing Regional Decline*. Oxford: Oxford University Press.
- Sandstrom, S. (1998). "The East Asia Financial Crisis and the Role of the World Bank." Statement to the Bretton Woods Committee by Managing Director. Washington: The World Bank. February 13.
- Saxenian, A. (1990). "Regional Networks and the Resurgence of Silicon Valley." *California Management Review* Fall, 89–112.
- Scott, A.J. (1996). "Regional Motors of the Global Economy." *Futures* 25, 391–411.
- Seagrave, S. (1995). *Lords of the Rim: The Invisible Empire of the Overseas Chinese*. London: Bantam.
- Selznick, P. (1957). *Leadership in Administration*. Berkeley, CA: University of California Press.
- Shleifer, A. and R.W. Vishny (1997). "A Survey of Corporate Governance." *The Journal of Finance* 52, 737–783.
- Stopper, M. and B. Harrison (1991). "Flexibility, Hierarchy and Regional Development: The Changing Structure of Industrial Production Systems and Their Forms of Governance in the 1990s." *Research Policy* 20, 407–422.
- Teece, D. (1986). "Profiting from Technological Innovation: Implications for Integration, Collaboration, Licensing, and Public Policy." *Research Policy* 15, 285–305.
- Teece, David J. (1998). "Capturing Value from Knowledge Assets: The New Economy, Markets for Know-How, and Intangible Assets." *California Management Review* 40, 55–79.
- Vogel, E. (1988). *One Step Ahead in China*. Cambridge, MA: Harvard University Press.
- Walsh, J.P. and J.K. Seward (1990). "On the Efficiency of Internal and External Control Mechanisms." *Academy of Management Review* 15, 421–458.
- Weidenbaum, M. and S. Hughes (1996). *The Bamboo Network: How Expatriate Chinese Entrepreneurs are Creating a New Economic Superpower in Asia*. New York: Free Press.
- Wernerfelt, B. (1984). "A Resource-Based View of the Firm." *Strategic Management Journal* 5, 171–180.
- Whitley, R. (1992). *Business Systems in East Asia: Firms, Markets and Societies*. London: Sage.
- Williamson, O.E. (1975). *Markets and Hierarchies: Analysis and Antitrust Implications*. New York, NY: Free Press.
- Williamson, O.E. (1985). *The Economic Institutions of Capitalism*. New York, NY: Free Press.
- Williamson, O.E. (1991). "Comparative Economic Organization: The Analysis of Discrete Structural Alternatives." *Administrative Science Quarterly* 36, 269–296.
- Williamson, O.E. (1999). "Strategy Research: Governance and Competence Perspectives." *Strategic Management Journal* 20, 1087–1188.
- Wong, S.L. (1988). "The Applicability of Asian Family Values to Other Sociocultural Settings." In P.L. Berger and M.H.H. Hsiao (eds.), *In Search of an East Asian Development Model*. New Brunswick: Transaction Books.
- World Bank, The (1993). *The East Asian Miracle: Economic Growth and Public Policy*. Oxford: Oxford University Press.
- Yasui, T. (1999). *Corporate Governance in Japan*. Paris: OECD.
- Yoshihara, K. (1988). *The Rise of Ersatz Capitalism in South-East Asia*. Oxford: Oxford University Press.
- Yoshimura, N. and P. Anderson (1999). *Inside the Kaisha: Demystifying Japanese Business Behaviour*. Boston, MA: Harvard Business School Press.