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Convergence of Corporate Governance: Critical Review and Future Directions

Toru Yoshikawa* and Abdul A. Rasheed

ABSTRACT

Manuscript Type: Review

Research Question/Issue: Convergence in corporate governance across countries has been a subject of interest and controversy in a variety of disciplines. We attempt to address a number of related research questions: (1) what constitutes convergence? (2) what are the drivers that propel corporations in different nations towards convergence? (3) what are the major impediments that stand in the way of convergence? (4) what empirical evidence do we have to suggest that we are moving towards or away from convergence? and (5) what would be some productive avenues for further research on this topic?

Research Findings/Results: Despite the vigorous intellectual position of the proponents of convergence, there is only limited evidence to indicate that such convergence is actually occurring. Even when there is ostensible convergence, much of it is convergence in form rather than substance, and governance convergence is not a context-free phenomenon.

Theoretical Implications: Our review of the past literature suggests that increasing integration of product and capital markets is leading to changes in corporate governance around the world, but there is only limited evidence that such changes constitute convergence. Governance changes seem to be primarily attributable to the quest for greater efficiency in governance and enhanced legitimacy in capital markets. However, local forces such as institutional embeddedness and politics can hinder governance changes or create “hybrid” practices.

Practical Implications: The ideal corporate governance may be institution- and firm-specific and an imposition of new practices or standards may not lead to intended policy or performance outcomes.

Keywords: Corporate Governance, Convergence, Board of Directors, Capital Markets

INTRODUCTION

In recent years, there has been considerable controversy about both the desirability and inevitability of convergence in the governance practices of public corporations. The normative case for such convergence was most forcefully made by Hansmann and Kraakman (2001). They argue that there is already a normative consensus that is inducing corporate law and practice to converge towards the shareholder value maximization model. This is because alternatives such as the managerial-, labor-, and state-oriented models are not viable competitively in globally integrated product markets. Similarly, the search for low-cost capital also forces firms to comply with the shareholder value maximization model. Furthermore, they argue that the shareholder model creates and sustains a supportive ideological

and political consensus in its favor. On the other hand, many other researchers have pointed to the difficulties involved in bringing about convergence in corporate governance (Bebchuk and Roe, 1999; Guillen, 2000; Gilson, 2004). Researchers who study patterns of change in economic systems argue that economic institutions tend to adapt foreign practices to fit local institutional contexts (Djelic, 1998; Vogel, 2003). This suggests that increasing globalization will likely lead to hybridization, rather than convergence (Pieterse, 1994). Yet others have even questioned the wisdom behind pushing for such hybridization.

Regardless of how one perceives the inevitability or desirability of convergence of corporate governance practices around the world, important changes have indeed been occurring in corporate governance systems in all major industrialized and even emerging countries in recent years (e.g., De Nicolo, Laeven, and Ueda, 2008). These changes present great opportunities for researchers in various disciplines such as economics, strategy, and organization theory to explore international corporate governance at both the

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institutional and firm levels. In fact, the causes and consequences of such changes and the process of changes are attracting increasing research attention.

In this review paper, we attempt to address a number of related research questions on the issue of convergence on the basis of extant scholarship on the subject. First, what constitutes convergence? Second, what are the drivers that propel corporations in different nations towards convergence? Third, what are the major impediments that stand in the way of convergence? Fourth, what empirical evidence do we have to suggest that we are moving towards or away from convergence? Finally, what would be some productive avenues for further research on this topic? To answer these questions, we review research in various academic disciplines that have seen growing interest on the topic of convergence, namely, finance, economics, law, and management and organization theory.

WHAT IS CONVERGENCE?

Broadly speaking, in the context of corporate governance, convergence refers to increasing isomorphism in the governance practices of public corporations from different countries. Such a definition is too general and complete isomorphism is unlikely even among firms within a country. Hence, from the point of view of a researcher, it is important to have more operationally clearer definitions of convergence. Researchers have made a distinction between convergence in *form* and convergence in *function* (Gilson, 2004). Convergence in form relates to increasing similarity in terms of legal framework and institutions. Convergence in function suggests that different countries may have different rules and institutions but may still be able to perform the same function such as ensuring fair disclosure or accountability by managers. Functional convergence, which La Porta, Lopez-de-Silanes, Shleifer and Vishny (2000: 20) describe as “decentralized, market-driven changes at the firm level,” of corporate governance practices appears to be occurring with greater regularity.

Khanna, Kogan and Palepu (2006) recently made a distinction between *de jure* convergence and *de facto* convergence. When two countries adopt similar corporate governance laws, there is *de jure* convergence between them. When actual practices converge (i.e., practices are actually implemented), it is referred to as *de facto* convergence. This distinction can be illustrated with an example from a different field. All countries have rules against bribery and corruption. That is, there is *de jure* convergence. However, the actual prevalence of corrupt practices and enforcement of the rules against such practices vary significantly across countries, suggesting that there is no *de facto* convergence. A similar notion is *decoupling* where an actor claims conformity or adoption, yet implements a new practice differently or does not actually implement it (Meyer and Rowan, 1977; Fiss and Zajac, 2004). Yet another type of convergence mentioned in literature is *contractual convergence* (Gilson, 2004). When existing institutions lack the flexibility to respond without formal change and political barriers limit the capacity for formal institutional change, an alternative would be contracts. Hence, in any examina-

TABLE 1
Convergence Dimensions in Corporate Governance Research: An Illustrative List

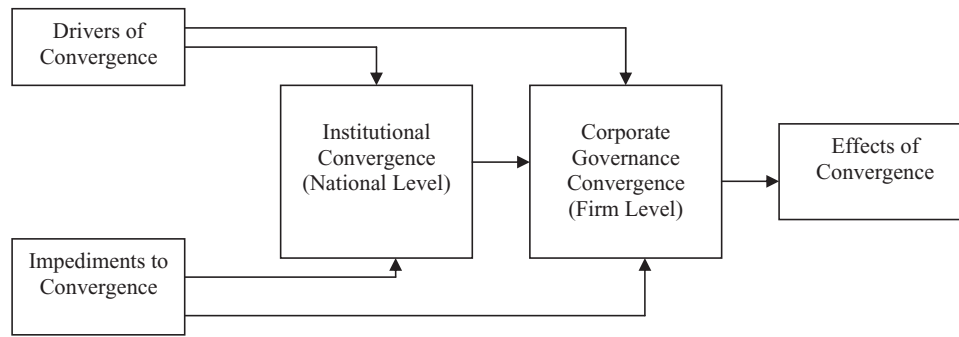
Level	Dimensions
Institutional/ National Level	<ol style="list-style-type: none"> 1. Adoption of good corporate governance codes 2. Legal reform or regulatory changes <ul style="list-style-type: none"> • Requirement of outside directors • More stringent disclosure • Greater protection of minority shareholders and creditors • Relaxed takeover rules 3. Country level changes <ul style="list-style-type: none"> • Spread of CEO option pay • Trend in hostile takeovers • Presence of institutional investors
Firm Level	<ol style="list-style-type: none"> 1. Adoption or increase in the number of outside directors 2. Greater information disclosure 3. Adoption and coverage of executive stock option pay

tion of convergence it is important to be clear about what kind of convergence we are discussing.

Any discussion about convergence is incomplete unless we are able to specify what the entities in a given group are converging towards. To illustrate, a statement that Japanese and American governance is converging could mean a number of different things. First, it could mean that American governance practices are becoming more like Japanese practice. Second, it could mean that Japanese governance is becoming more like American governance. Third, it could mean that both are converging towards the midpoint between them. Finally, it could also mean that both systems are moving towards some kind of a normative ideal that is very different from their current positions. Despite these possibilities of convergence, the extant literature generally examines convergence in terms of the adoption of some elements of the Anglo-American or US governance system and practices by countries and firms outside the Anglo-American zone (e.g., Reed, 2002; Khanna and Palepu, 2004; Khanna *et al.*, 2006; exceptions include Toms and Wright, 2005). Previous research has examined, for example, the adoption of good governance codes at the institutional level (e.g., Aguilera and Cuervo-Cazurra, 2004) and various outsider- or market-oriented practices such as independent directors, stock-based executive compensation, and greater corporate information disclosure (Tuschke and Sanders, 2003; Fiss and Zajac, 2004; Markarian, Parbonetti and Previts, 2007; Sanders and Tuschke, 2007), the key elements of the Anglo-American model, at the firm level. Table 1 provides an illustrative listing of the various dimensions of convergence that have been examined in empirical studies.

One of the sources of strength as well as confusion in convergence research is the issue of what is converging. The

FIGURE 1
Convergence in Corporate Governance: An Analytic Framework



rather general term of convergence has been used to include convergence in systems, rules, regulations, structures, and processes. While each of these aspects is important in its own right, the differential focus of different studies often makes comparisons across them problematic. As Ginsberg and Venkatraman (1985: 422) point out,

an analytic review scheme is necessary for systematically discerning patterns from a widely differing set of studies and evaluating the contributions of a given body of research.

The broad analytic framework we adopt in this paper is presented in Figure 1. There are forces that push countries and firms within countries towards convergence in governance practices. Similarly, there are also very powerful factors that impede such convergence. In our review, we call these forces “Drivers of Convergence” and “Impediments to Convergence” respectively. Whether convergence occurs, at what speed it occurs, and to what degree it occurs are ultimately determined by the interplay of these two forces. The drivers and impediments can affect convergence at both the country level and firm level. Furthermore, institutional convergence at the country level can lead to convergence in governance practices at the firm level. Finally, convergence can have implications for firm level performance.

DRIVERS OF CONVERGENCE

Convergence proponents, who emphasize efficient market considerations, argue that globalization accelerates competition over “best practices,” and firms that are more exposed to global markets are compelled to adopt the Anglo-American model, as it is seen as a *de facto* global standard (Hansmann and Kraakman, 2001). On the other hand, institutional theory holds that organizational fields tend to become isomorphic over time as a result of three kinds of pressures – mimetic, normative, and coercive (DiMaggio and Powell, 1983). Each one of these pressures can be found in the case of corporate governance as well. For example, when a firm from one country accesses capital markets of another country, it has to conform to the regulatory requirements of that market which act as a coercive force. Similarly, when firms from one country begin to follow what they perceive to be the best governance practices from another

country, it could be viewed as a mimetic process. Finally, the demands for protection of minority shareholders, better disclosure, stock-based compensation, etc. have taken on a normative status across countries and have thus become part of the reform agenda in a large number of industrialized nations. For example, international harmonization of disclosure and accounting standards works to promote convergence (Coffee, 1999). In short, from an institutional perspective, firms that are exposed to different institutional environments are pressured to adopt practices that have institutional legitimacy for symbolic reasons. In this section, we will examine some of the more important drivers of convergence that have been discussed in the literature.

Although we discuss each of the drivers independently, it is important to recognize the potential for interactions among them. For example, we discuss the integration of financial markets and the diffusion of codes of good governance as separate drivers, but it is quite likely that these drivers can reinforce each other. Similarly, the integration of product markets and financial markets may reinforce each other as globalization of a firm’s operations can lead the firm to seek foreign capital.

Integration of Financial Markets

The integration of financial markets has been offered as the primary driver of convergence of governance practices (Nestor and Thompson, 2000; Khanna and Palepu, 2004). National financial markets, which operated in relative isolation until recently, have suddenly become more integrated in the last two decades with significant implications for governance. Financial market integration takes many forms including listing by firms from one country in the stock exchanges of other countries, increasing foreign portfolio investment in both developed and developing countries, cross-border mergers, and acquisitions, and free capital flows across countries. Each of these has implications for convergence because they bring about a fundamental transformation in the ownership structure of corporations.

One of the most interesting developments in equity markets in recent years has been the number of firms that list their shares in multiple exchanges around the world (Chemanur and Fulghieri, 2006; Bell, Moore and Al-Shammari, 2008). The US and London stock exchanges have seen a huge

increase in the number of foreign listings. Foreign issuers entering these exchanges have to incur significant regulatory and compliance costs. The presence of these non-trivial costs, however, has not discouraged the flow of foreign equity listings (Saudagaran and Biddle, 1995). Even more interestingly, an increasing number of firms are altogether foregoing their domestic equity markets and are making their first issue of their equity in New York or London (Chemmanur and Fulghieri, 2006). On the surface, it would seem that firms would be interested in listing in countries with the least demanding regulatory requirements in a typical "race to the bottom." But the pattern that has been observed is exactly the opposite. The explanation lies in the fact that when a firm decides to list in a foreign market with higher disclosure standards, essentially they are engaging in a bonding mechanism, signaling to investors that they are willing to comply with higher standards than required in their home country (Vaaler and Schrage, 2006). Such bonding, in turn, has been found to increase the firm's share value (Coffee, 2002). Thus, foreign listing, through either crosslisting or IPOs, although motivated by the desire to increase firm valuation, results in convergence as a by-product.

The last 15 years has seen a substantial increase in foreign portfolio investment in virtually all regions of the world (Useem, 1998). This increase has been fueled by a number of reasons ranging from the higher rates of stock value appreciation in countries such as China and India, the relatively attractive equity values in Japan in the post-bubble years, and the normal desire of investors to diversify their portfolios to reduce risk. Foreign investors typically own relatively small stakes and trade their shares frequently (Davis and Steil, 2001). Small stakes in multiple companies provide them with both diversification and liquidity (Tesar and Werner, 1992). Foreign portfolio investors are profit-driven market investors and are free from local embeddedness through social, historical, and transactional close ties with firms enjoyed by stable domestic owners in countries such as Japan (Charkham, 1994; Aguilera and Jackson, 2003). Attracting foreign institutional investors is considered desirable by many companies because the resulting demand for the stock can drive up the prices and increase firm valuation. But in order to attract foreign investors, it becomes necessary to comply with their expectations of good governance in matters such as disclosure and respect of the rights of minority shareholders. Mass selloffs can negatively impact stock prices, raise the cost of capital, and enhance the likelihood of a hostile takeover (Porter, 1992). Parrino, Sias and Stark (2003) provide direct evidence that selloffs by investors have adverse consequences for managers including dismissal, as boards of directors act to retain investors. Thus, the key is not only to attract foreign investors but also to retain them. In order to retain foreign investors, it becomes imperative to live up to their expectations of good governance (David, Yoshikawa, Chari and Rasheed, 2006).

Another way that integration of capital markets can potentially lead to convergence is through cross-border mergers and acquisitions. In some cases, listing in a foreign exchange may be the first indication that the firm is considering acquisitions in that country through stock swaps. When a German or Japanese firm is acquiring an American firm or vice versa, it seems reasonable to assume that the new entity will

exhibit the governance characteristics of both the countries. That is, some governance characteristics of the country of the acquired firm are likely to be retained, but governance practices of the acquirer's home country will also be implemented, thus resulting in convergence.

Product Market Integration

Can product market integration have an effect on governance similar to financial market integration? The opinion on this issue is somewhat divided, but proponents of convergence argue that, in the long run, product market integration and the resulting global competition will have the same effect (Khanna and Palepu, 2004). Here, corporate governance is viewed as a technology or a new innovation, and in an era of global competition firms have no alternative but to adopt the most innovative practice or face competitive failure. Focusing on the patterns of diversification strategies across industries, Kogut, Walker and Anand (2002) present an argument that technological and market forces compel firms to adopt similar strategies across countries. In a similar vein, different governance systems are seen as engaged in Darwinian competition (Kester, 1997). Nations and firms that are following suboptimal governance systems will be less efficient and will fail or will have to adopt the more efficient governance system. In either case, the result is convergence.

Extending this perspective of competition among governance systems, it is often argued that competition will lead to convergence of corporate governance systems. At the institutional level, it is argued that governments compete to attract firms to locate their operations in their countries (Witt, 2004). This leads each government to introduce attractive regulations including those on corporate governance. As global product market competition intensifies, corporate governance systems at the firm level also become similar, because firms decide to adopt more efficient elements of corporate governance systems (Witt, 2004).

Diffusion of Codes of Good Governance and Harmonization of Accounting Rules

Yet another driver of convergence in governance is the development and diffusion of codes of good governance (Aguilera and Cuervo-Cazurra, 2004; Collier and Zaman, 2005) as well as the harmonization of accounting rules across countries (Coffee, 1999). What drives the diffusion of the good corporate governance codes? Aguilera and Cuervo-Cazurra (2004) specifically examine this issue and find that countries with weak shareholder protection, high government liberalization, and a strong presence of foreign institutional investors tend to develop the codes. They argue that legitimation pressures (when a country has weak shareholder protection rights) and efficiency needs because of market pressures drive the diffusion of the codes. Hence, their study suggests that both institutional and market pressures play a role in spreading the good corporate governance codes.

Good governance codes are often not mandated legal requirements but a set of norms, adherence to which is

voluntary. They represent what public or private organizations consider as best practices and following them can bring a firm considerable legitimacy. The publication of the Cadbury Committee report in the UK in 1992 was a seminal development that was followed by similar development of codes of good governance in a number of countries (Stiles and Taylor, 1993). Codes can be developed by stock exchanges, government, directors' associations, managers' associations, professional associations, or investors, associations. Regardless of who issues the code, once they are published, they become an important source of normative institutional pressure for convergence within a country. If the codes are similar across countries, then they become a driver of global convergence as well. As Aguilera and Cuervo-Cazurra (2004: 424) point out, "integration in the global economy functions as a transmission belt for the need to innovate and facilitate the transfer of practices across countries."

One of the major problems that a firm faces when it decides to list in a foreign exchange is the need to restate its accounts following the standards prevailing in that country. Similarly, investors interested in making portfolio investments in other countries face the problem of understanding the accounting practices followed in that country. Clearly, the prevalence of different accounting standards is an impediment to capital flows across countries. This problem is currently being addressed by the development of a core set of international accounting standards by the International Accounting Standards Committee. The harmonization of accounting standards can greatly facilitate the process of convergence (Coffee, 1999), mainly through mandating uniform disclosure requirements. In the global context, Markarian *et al.* (2007) compares disclosure practices in 1995 and 2002 among large multinational firms and shows that there was greater information disclosure in 2002. Another example of changes in governance practices in response to regulatory changes is the changes made by US firms in response to the Sarbanes-Oxley Act of 2002 (Valenti, 2008). Apart from codes of governance and accounting standards, there are a number of other normative pressures that also contribute to convergence such as harmonization of disclosure requirements within the European Union and issuance of the Transparency Directive. For example, Collier and Zaman (2005) found in their study that the audit committee concept, which was recommended by the European Commission, has been widely accepted in European countries.

IMPEDIMENTS TO CONVERGENCE

Despite the many forces that push firms in different nations towards convergence in corporate governance, national governance systems have not been racing towards convergence (Aguilera and Jackson, 2003). Even when changes occur, they seem to be the direct consequence of endogenous factors within a country rather than the result of global factors pushing towards convergence (Hermes, Postma and Zivkov, 2006). For example, the Sarbanes-Oxley legislation in the US was a public policy response to breakdown in the system rather than the result of a drive towards a normative global ideal. Thus, clearly there are forces at play that

impede convergence. A better understanding of the relative intransigence of national governance systems is not possible without an examination of the factors that impede convergence. Among the different explanations for lack of convergence are structure- and rule-driven path dependence, complementarities among existing institutions and rules, prevalence of multiple optima, rent-seeking by interest groups, differences in property right regimes, economic differences and differences in social norms, and lack of consensus on an ideal. Each of these is discussed next.

Path Dependence

Path dependence refers to a situation where the current state of a system is determined not only by its initial conditions but also by the path it took (North, 1990; 2005). In other words, the evolutionary trajectory of the governance system of a country is the result of thousands of individual historical events and policy responses to them. Given that no two countries have the same sets of historical events or similar societal responses to them, the net result is persistence of existing systems and divergence across systems. For example, banks play a relatively minor role in monitoring corporations in the US, compared with Japan or Germany, because legislation enacted almost a century ago specifically restricted the role of banks. Even if we hypothetically agree with the perspective that bank monitoring reduces agency costs and encourages a long-term orientation, any legislation permitting banks to own large blocks of shares is unlikely to make the US governance system similar to that of Germany or Japan (Roe, 1993, 1994). That is, a change in law allowing banks to own shares in companies cannot by itself reverse the trajectory of changes that unfolded over the last several decades.

Bebchuk and Roe (1999) make a distinction between structure- and rule-driven path dependence. Structure driven path dependence refers to the direct effect of ownership structures on subsequent ownership structures. Structure-driven path dependence can arise out of a number of factors. First, *adaptive sunk costs* refer to adaptations that firms in a country may have made in areas such as debt structure or incentive compensation schemes in response to diffuse ownership of shares that subsequently make changes in ownership structure less efficient. *Network externalities* refer to the fact that a governance characteristic such as efficient ownership structure for a firm might depend on the ownership structure of other firms in that country because of the advantages of adhering to the dominant form. *Endowment effects* refer to the situation wherein players having control under an existing structure can affect the value that alternative structures can produce. Much of the same logic applies for rule-driven path dependence as well. Rule-driven path dependence arises from the effect that initial ownership structures have on subsequent structures through their effect on legal rules governing corporations. These legal rules include corporate law, laws governing insolvency, labor relations, and financial institutions. Interestingly, the rules themselves are path dependent. Rules are rarely enacted for efficiency reasons and are influenced by prior laws and existing ownership structures. For example, once a set of rules are in place and the companies in that

country have incurred costs in adapting to them, under normal circumstances the sunk costs would be used as a logic against changing the rules.

Complementarities

The prevailing governance practices of a country are results of a “system of complementary institutions, legal rules, and practices where improving any one element independently may actually hurt the efficiency” of the whole system (Khanna *et al.*, 2006: 71). Schmidt and Spindler (2004:115) define a system as complementary if elements of the system fit together well, i.e., they

take on values such that they mutually increase their benefit in terms of whatever the objective function or the standard for evaluating the system may be and/or mutually reduce their disadvantages or costs.

Aguilera, Filatotchev, Gospel and Jackson (2008) point out how independent directors, executive pay incentives, information disclosure, and takeover markets form a key set of complementary elements that lie at the very core of the Anglo-American form of corporate governance. Similarly, the core elements of the Japanese system include high reliance on debt, monitoring by debt holders, absence of a market for corporate control, cross-shareholding by firms within a business group, and long-term employment practice which encourages investment to develop firm-specific skills (Aoki, 1994). The German system also relies on complementary components such as the important role of major banks and labor in corporate governance, although the role of the banks has been gradually changing in recent years (Hackethal, Schmidt and Tyrell, 2005). Hence, from the perspective of institutional complementarity, effectiveness of individual governance practices cannot be evaluated in isolation. For example, high dividends may be beneficial to shareholders in the US context as it would reduce the discretionary cash available to managers, but in Japan where cross-shareholding is the prevailing norm, higher dividends would only mean firms paying dividends to each other with no net reduction in discretionary cash.

Multiple Optima

Khanna *et al.* (2006) point out that complementarities can induce multiple optima. That is, with or without path dependence, nations can end up choosing different bundles of practices that yield equivalent long-run corporate governance. Once such equivalence is achieved, there is little incentive to change from one system to another, given that such changes would incur transaction costs and encounter resistance from various parties. The belief that there is no single optimal model of convergence is reinforced by the fact that a number of empirical studies have produced inconsistent and ambiguous results (Demsetz and Lehn, 1985; Thomsen and Pedersen, 1996; Coles, McWilliams and Sen, 2001). Interestingly, proponents of convergence refer to multiple optima as “harmless mutations” and argue that network efficiencies of a common standard form are likely to

eliminate any instances of “fortuitous divergence” (Hansmann and Kraakman, 2001).

Rent Seeking by Interest Groups

Governance structures can persist even after they have become demonstrably suboptimal because of the presence and actions of parties who resist change, because it would reduce their private benefits of control while the efficiency gains from change would be shared by several actors (Coffee, 1999). Rent-seeking actions could come from a wide range of actors such as labor unions, banks, controlling shareholders, and lawyers (Coffee, 1999; Bebchuk and Roe, 1999; Khanna *et al.*, 2006). Many European countries have laws in place that allow unequal voting rights (as opposed to the one share, one vote norm), specifically designed to protect family control. Any convergence towards the US model in these countries, for example, towards the one-share, one-vote norm would inevitably dilute the control rights these groups currently enjoy. Unless groups who have an interest in changing the balance of power can mobilize adequate political support for amending these rules, regulatory inertia will continue to perpetuate the current system.

Differences in Property Rights Regimes

Although respect for property rights are at the heart of all capitalist economies, there is considerable variation in the precise ways in which property rights are defined and enforced in different countries. Milhaupt (2004) argues that governments play a large role in the allocation of control rights and the legal enforcement of such rights. Although integration of product, financial, and labor markets may induce managers to adopt similar organizational structures and practices, there are no equivalent forces acting in political markets of individual countries to bring about similar rules with regard to property rights. How do differences in property rights regimes impede convergence? Milhaupt’s (2004: 211) core argument is that “property rights institutions are the principal source of diversity among national governance systems.” When property rights regimes are weak, that is in countries where governments retain considerable control rights, we would typically observe smaller firms, family ownership, and very little dispersion in ownership. In such countries, the only way to overcome constraints on growth in size would be to invest in “political capital” as is the case with the *chaebols* of Korea or the business groups of India. Such investments are made with the assumption of long-term, repeated interactions that can be recovered only over time, thus creating a strong incentive for the maintenance of status quo. Therefore, convergence, at best, will be “weak, limited, and episodic” (Milhaupt, 2004: 220).

Economic Nationalism and Differences in Social Norms

While the dominant view in public discourse seems to be that globalization is an unstoppable force, a view most eloquently presented by authors such as Friedman (2006), there is a school of thought that globalization and the consequent

economic integration are a terrifying force in the eyes of many nations. It is likely that many nations would respond to the homogenizing influence of globalization with very strong assertions of national differences and identity (Barber, 1995). Financial market integration leads to foreigners buying assets of a country through both foreign portfolio investments as well as through cross-border acquisitions. These investors often demand corporate governance reforms. However, this could result in a backlash against foreign investors, rendering contestability of control more difficult for outsiders. Another obstacle in the path of convergence is the presence of social and commercial norms. Such norms can often “supplement or trump the commands of formal legal rules or explicit commands” (Charny, 2004: 303). Also, the objectives of business organizations differ from one country to another (Witt, 2008); for example, social obligations are important in such countries as Germany and Japan whereas the interests of shareholders are considered paramount in the US and UK (Dore, 2000). As discussed earlier, there are initiatives to harmonize regulations at the European Union level. However, it is also suggested that the likelihood of cleavage because of the “clash of capitalisms” among European countries may also increase (Callaghan and Hopner, 2005). Hence, even at the regional level, both the forces for convergence and forces against them are likely to co-exist in some state of uneasy equilibrium. If there is divergence in the socially accepted objectives of the firms across countries, it is entirely possible that the ideal corporate governance structure may also be different across countries.

Lack of Consensus on an Ideal

Organizational practices, once they come to be held as ideal or as contributing to performance or legitimacy, have been found to diffuse across countries. Practices ranging from just-in-time inventory management techniques and total quality management to corporate restructuring and stock-based compensation have spread across the world. There may perhaps be a rather simple explanation for the lack of strong convergence in governance. Although authors such as Hansmann and Kraakman (2001) would argue that globalization will lead to the diffusion of what they consider as the Anglo-American ideal to other countries, it is entirely possible that there is no consensus on what constitutes the best governance system. This is because each model has strengths and weaknesses that may manifest variously in different environments. During most of the 1980s and early 1990s, the Japanese model was held in high regard (Porter, 1992), but its luster has dimmed in more recent years. Similarly, the US model was considered optimal for a long time, but increasingly considerable dissatisfaction has been expressed about its many deficiencies such as its failure to prevent acts of corporate malfeasance, inability to reign in runaway executive pay, and its short term orientation. In the absence of consensus about what would be an ideal system, it is understandable that firms within individual nations are in no hurry to completely abandon existing practices and adopt practices that are seen as alien, of unproven quality, and doubtful transferability. This led Bebchuk and Roe (1999:127) to comment that

law makers and corporate players genuinely disagree today, have genuinely disagreed in the past, and in all likelihood will continue to disagree as to which corporate rules and structures are best.

Even at the domestic level, past research suggests that the relationship between governance and performance is context-specific (Coles *et al.*, 2001). At an even deeper level, there are profound differences among countries about the very purpose of a publicly listed corporation (Witt, 2008). As we explained in the previous section, development of a consensus about a normative ideal form of corporate governance is not possible when there is not even a consensus on the purpose of the corporation.

EMPIRICAL STUDIES ON CONVERGENCE

As the issue of convergence has become a topic of vigorous academic debate, not surprisingly, efforts to empirically examine the magnitude and direction of convergence in governance practices have followed. During the last decade, a number of studies have examined convergence in terms of various governance dimensions. We believe that this is an opportune time to take stock of the accumulated evidence of the last decade, see what generalizable conclusions can be drawn from them, identify unresolved issues, and suggest an agenda for future research. This is especially the case because we find that empirical papers on convergence have appeared in journals in diverse fields such as finance, economics, management, and organization theory. We systematically searched for empirical studies that have appeared in major journals in each of these areas using approaches such as key word searches, citation trails, etc. A summary of the studies we identified from major journals in these disciplines is presented in Table 2 and provides information on level of analysis, sample characteristics, measures of independent and dependent variables, and conclusions.

At a very broad level, empirical studies on convergence can be divided into two distinct groups. While one set of studies has attempted institutional comparisons with the country as the unit of analysis, the second set of studies treats firms as the unit of analysis. The second group of studies, that is studies at the firm level, shows much greater variance than studies at the institutional level in terms of sample characteristics. They range from study of a single firm (Khanna and Palepu, 2004) to several firms in a single country (Tuschke and Sanders, 2003) to a large number of firms in several countries (Khanna, Palepu and Srinivasan, 2004). While the majority of the authors have used relatively short time periods to examine convergence, exceptions include studies such as Toms and Wright (2005) who studied changes in corporate governance in the US and the UK from 1950 to 2000.

Country Level Studies

In one of the earliest studies at the country level, Guillen (2000) investigated the shift in numerous corporate governance indicators such as share ownership by institutional investors and the adoption of long-term CEO pay among over 40 countries and found that there are no major shifts

TABLE 2
Empirical Studies on Corporate Governance Convergence

Author(s) and year of publication	Time period	Sample and Context	Variables	Research Question and Findings
Institution-Level Research Guillen, 2000	Late 1970s/Early 1980s to late 1990s	17–43 countries (sample size varies by the governance indicator)	Change in six governance indicators: stock of FDI; presence of institutional investors; balance between debt and equity finance; adoption of long-term CEO pay; and announced hostile takeovers	Investigates the shift in six corporate governance indicators in up to 43 countries and finds that no major shifts took place from the late 1970s/early 1980s to the late 1990s.
Aguilera and Cuervo-Cazurra, 2004	1978–1999	49 countries	DV: whether a country developed a governance code; number of codes developed IV: country's legal system; anti-director rights; economic integration; government liberalization; foreign institutional ownership; domestic capital market	Investigates whether various country level variables would be positively related to the adoption of corporate governance codes. It was found that codes were developed in response to both endogenous and exogenous factors. It is argued that efficiency needs and legitimization pressures led to the adoption.
Schneper and Guillen, 2004	1988–1998	37 countries	DV: announced hostile takeovers IV: shareholder rights; labor rights; bank rights	Examines the effects of stakeholder power on the spread of hostile takeovers in 37 countries and finds that shareholders', workers', and banks' rights affected the adoption. Announced hostile takeovers increased with greater shareholders' rights and decreased with greater workers' and banks' rights.
Goergen, Martynova and Renneboog, 2005	1990–2004	30 European countries	Changes in takeover regulations	Examines the changes in takeover regulations, especially on adoptions of the mandatory-bid rule, the equal-treatment principle, the squeeze-out rule, and the use of voting caps, non-voting shares, dual-class and multiple voting shares. The study found convergence in the regulations.

TABLE 2
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Author(s) and year of publication	Time period	Sample and Context	Variables	Research Question and Findings
Toms and Wright, 2005	1950–2000	The US and UK	Historical analysis of changes in corporate governance systems	Examines the changes of corporate governance system in the US and UK during the last 50 years and shows that monitoring by shareholders increased in both countries.
Khanna <i>et al.</i> , 2006	1998	49 developed and developing countries	DV: legal protection of shareholders and creditor protection IV: degree of capital market, product market, and labor market integration between pairs of countries	Examines the similarity and convergence of corporate governance practices between economically interdependent countries. The study found a strong relationship between economic integration and <i>de jure</i> governance similarity but no evidence of <i>de facto</i> similarity.
Zattoni and Cuomo, 2008	1992–2005	44 countries: 29 civil law countries and 15 common law countries	1 st study – Comparison of the diffusion of governance codes among countries with different legal systems 2 nd study DV: Coverage of codes; Strictness of code recommendations IV: Common law countries	Examines the adoption of corporate governance codes in civil law countries compared with common law countries. Civil law countries issued codes later than common law countries and the codes in civil law countries are more ambiguous and lenient.
Firm-Level Research Tuschke and Sanders, 2003	1996–1999	76 listed German firms	DV: adoption of stock-based incentive plan; adoption of transparent accounting standards (GAAP or IAS) IV: ownership concentration	Investigates the effect of ownership on the adoption of stock option pay and transparent accounting practices of German firms. There is an inverse U-shaped relationship between ownership concentration and these governance reform measures.

Khanna and Palepu, 2004	1981–2001	Infosys, Indian software industry	Qualitative study	Investigates corporate governance practices of Infosys and finds that the firm adopted US corporate governance practices to attract talent, not because of global capital market pressure.
Khanna <i>et al.</i> , 2004	2002	794 firms in 24 countries	DV: information disclosure (overall and financial transparency) IV: interactions with US financial (listing, equity investment, FDI), product (export, operations) and labor (business travel) markets	Examines whether exposure to US markets led to greater disclosure practices of foreign firms. Findings indicate that greater interactions with US markets were associated with similarities in disclosure practices of foreign firms.
Fiss and Zajac, 2004	1990–2000	112 listed German firms	DV: shareholder value orientation (value-based management control system, stock option plans for management, international accounting standards) IV: ownership structure (banks, firms, government, families, other institutions); CEO's age and education	Investigates the effects of ownership structure and CEO characteristics on the adoption of shareholder-oriented practices of German firms. Results indicate that block holdings by return-oriented and pro-business shareholders led to the adoption of shareholder value orientation. The study also found that some firms espoused shareholder value-oriented practices but did not implement them. Powerful actors reduced the likelihood of “decoupling.”
Buck and Shahrin, 2005	2000/2001	7 matched German and UK firms	DV: coverage of executive stock options (ESO), performance conditions of ESO	Compares 7 German and UK firms in terms of the coverage of ESO and performance conditions attached to ESO. Findings show that the US-style ESO have diffused among large German firms, but with distinctly un-American features.
Khanna <i>et al.</i> , 2006	2001	495 firms in 25 emerging economies	DV: <i>de facto</i> similarity to US corporate governance standards (CLSA index) IV: exposure to global capital markets, global product markets, and global labor markets	Examines the relationship between global market exposure and adoption of US corporate governance practices in firms in 25 emerging economies and finds that no such relationship exists.

TABLE 2
Continued

Author(s) and year of publication	Time period	Sample and Context	Variables	Research Question and Findings
Sanders and Tuschke, 2007	1996–2000	89 listed German firms	DV: adoption of stock option plans IV: associations with US markets (US stock listing and sales); executives' business education; adoption of transparent accounting standards (GAAP or IAS); board interlocks; industry adoption	Investigates the impact of exposure to US markets of German firms on the adoption of stock option plans and finds that the adopters were likely to have greater degree of associations with US markets and had experience of adopting other "institutionally contested" practices.
Yoshikawa, Tsui-Auch and McGuire, 2007	1990s–2005	Sony, Japanese firms	Qualitative study	Examines how global market exposure led Sony to reform its corporate governance practice in the late 1990s and how its board practices had diffused to other firms which in turn led to regulatory reforms in Japan.
Markarian <i>et al.</i> , 2007	1995 and 2002	75 large global firms	Comparison of governance and disclosure practices between 1995 and 2002	Examines the changes in governance practices such as CEO/Chair duality, the percentage of independent directors, and board size as well as the degree of governance-related disclosure of large global firms and finds that there was an increase in independent directors and the amount of information disclosed in 2002 compared with 1995.
Bozec, 2007	2002	230 Canadian firms	DV: board composition; executive compensation; shareholder rights; information disclosure IV: US cross-listing; US operations	Examines whether US market interaction is related to the US governance practices among Canadian firms and finds that greater US market interaction is associated with US governance practices.
Chizema, 2008	2002–2005	126 German firms	DV: disclosure of individual executive compensation IV: institutional, dispersed, and state ownership; prior adoption of shareholder-oriented practices; firm size; size of the supervisory board; firm age	Examines whether ownership patterns affect the disclosure of individual executive compensation. Results indicate that institutional ownership, dispersed ownership, state ownership, and prior adoption of shareholder-oriented practices are positively associated with disclosure.

over the years. Khanna *et al.* (2006) examined the similarity and convergence of corporate governance practices between economically interdependent countries and found that there were similarities between them. A study by Goergen *et al.* (2005) focused on the reforms of takeover regulations in Europe and found that convergence towards the Anglo-American system has taken place. Schnepfer and Guillen (2004) investigated the spread of hostile takeovers in 37 countries and showed that the extent of shareholder right protection and the extent to which workers' and banks' rights are protected affect the frequency of hostile takeovers. The major insight from this study is that new practices will spread in a country only when they are consistent with the interests of powerful actors in each country.

Focusing on the adoption of good corporate governance codes, Aguilera and Cuervo-Cazurra (2004) studied whether various country level variables, such as legal tradition and global economic integration, would be positively related to code adoption and found that both efficiency needs and legitimation pressures led to the adoption. Zattoni and Cuomo (2008) examined the adoption of governance codes in civil law countries compared with common law countries and found that the codes in civil law countries tended to be more ambiguous and lenient, suggesting that the codes were developed more for legitimation reasons than substantive reasons. These studies reveal that while new codes or regulations may be implemented, convergence may only be in form rather than in substance because the rules are not strictly implemented (Khanna *et al.*, 2006). Hence, firms may be able to get away with non-compliance despite the adoption of codes of good governance if the regulatory institutions of the state do not spend the effort to enforce them. Therefore, these studies suggest that institutional convergence and firm level convergence need to be investigated separately. Furthermore, the relationship between institutional and firm-level convergence also requires empirical examination.

Three broad conclusions seem to emerge from empirical studies at the country or institutional level. First, despite the vigorous intellectual position of the proponents of convergence that it is desirable and inevitable, there is only limited evidence to indicate that such convergence is actually occurring. Second, even when there is ostensible convergence, much of it is convergence in form rather than substance. Third, governance convergence is not a context-free phenomenon. It is facilitated by factors such as economic interdependence and hence an understanding of contextual factors that facilitate or inhibit convergence can provide more insights than the more simplistic empirical search for evidence of convergence.

One of the limitations of studies at the institutional level is that they examine the effects of the macro or country level factors and do not pay sufficient attention to the processes that lead to such adoption. That is, they shed little light on how various factors at the macro, institutional, and firm levels interact and shape the contents of the codes or laws. Regulations and laws are not simply imposed by the state or regulatory bodies, but they are often the results of complex interactions and bargaining among key actors. Therefore, to understand how and why the new codes or laws are adopted, we need to examine the impact of the institutions

and motivations of key actors as well as the interactions among them.

Firm Level Studies

Markarian *et al.* (2007) examined the changes in governance and disclosure practices of 75 large multinational firms in various countries and found that there was a significant increase in independent directors and that the amount of information available to public has increased from 1995 to 2002. As independent directors and greater information disclosure are regarded as key elements of the Anglo-American system, the authors conclude that convergence towards that system took place. Khanna *et al.* (2006) looked at the relationship between global market exposure and adoption of US governance practices in 25 emerging economies and found no relationship between them. Khanna *et al.* (2004) similarly examined whether exposure to US capital markets leads to greater disclosure practices of foreign firms and found a positive relationship. Looking at an Indian IT firm, Infosys, however, Khanna and Palepu (2004) showed that the company adopted US governance practices, not because of global capital market pressure, but to attract talent which it needed to compete in global markets. Thus, these studies reveal a mixed picture on the effects of globalization on the adoption of US governance practices by other countries.

Focusing on a single country, Tuschke and Sanders (2003) and Sanders and Tuschke (2007) investigated the effects of ownership concentration and exposure to US markets on the adoption of stock option pay and transparent accounting standards among German firms and found that these factors indeed affect the adoption of such corporate governance reform measures. These studies generally support the view that exposure to US markets and powerful shareholders prompts German firms to adopt US governance practices. Bozec (2007) found similar results for Canadian firms. Chizema (2008) focused on the disclosure of individual executive pay in German firms and found that institutional, state, and dispersed ownership were positively associated with the disclosure.

While these firm-level studies investigated the adoption of some elements of the US governance and accounting practices (Tuschke and Sanders, 2003; Khanna *et al.*, 2004; Sanders and Tuschke, 2007), some studies also focused on how local firms engaged in decoupling (Fiss and Zajac, 2004; Yoshikawa *et al.*, 2007). Fiss and Zajac (2004) examined the effects of ownership structure and CEO characteristics on the adoption of shareholder-oriented practices in Germany. They found that many German firms that adopted such practices actually did not implement them, but powerful actors such as financially oriented investors reduced the likelihood of this decoupling. Focusing on Japanese firms, Yoshikawa *et al.* (2007) provide a cross-level analysis of a firm-led corporate governance change. They analyzed how international market exposure led Sony to reform its corporate governance practice modeled after the US system, which subsequently generated a diffusion of this governance practice to other firms. They show that firms in Japan adopted some elements of the US governance practices but implemented them differently, suggesting that the adoption may have been for symbolic purposes. What this indicates is

that convergence has been more in form at the firm level and that substantive changes have been hard to come by in actual practices. Hence, similar to the institutional-level analysis, an analysis of the firm-level convergence also poses a question of not only “either or” and “how much convergence” but also the form of convergence.

Some general conclusions can be drawn from the firm-level studies on convergence. First, although integration of financial markets is often presented as one of the major drivers of convergence, empirical evidence suggests that product market and labor market integration are just as important. Second, somewhat surprisingly, there has been only limited effort to empirically investigate the relationship between capital market integration and convergence at the firm level. Third, as Khanna and Palepu’s (2004) study indicates, convergence may be a matter of conscious choice by individual firms than a trend affecting all firms in a country or even all firms within an industry in a country.

DIRECTIONS FOR FUTURE RESEARCH

As the foregoing review shows, there has been an accumulation of empirical studies in recent years that explore the extent and direction of convergence in governance practices across countries as well as firms within individual countries. The combined evidence from these studies suggests several generalizations. First, prior research generally shows that market integration enhances the need for greater efficiency, which in turn tends to drive convergence or adoption of some Anglo-American practices, often in modified forms. Second, capital market integration enhances the need for greater legitimacy in the eyes of institutional investors and international organizations which in turn bring about convergence. Third, the degree of local embeddedness in terms of organizational practices and politics appears to hinder convergence or force modification (or translation) of the new corporate governance practices.

A review of the empirical studies presented in Table 2 also reveals certain interesting gaps in the literature. Although the role of debt as a governance mechanism is well recognized in the literature (Williamson, 1988), only one study in our review (Guillen, 2000) actually examined the changes in debt-equity ratios across countries. We find this to be a particularly glaring omission considering the significant differences in debt-equity ratios across countries (Wald, 1999). Second, one of the ways in which capital market integration is supposed to lead to convergence is through cross-border mergers. Although there are a number of studies of cross-border mergers in general, the governance consequences of cross-border mergers have seldom been examined. For example, we still know little about how the home country governance structure of the acquirer can affect governance practices of the acquired firm and whether the nationality of the acquirer matters. There is a need to empirically examine this issue. In addition to these, the previous empirical studies provide a number of significant insights about directing future empirical inquiry into other promising directions. We discuss some of the possible directions for future research in this section.

Hybridization Patterns in Governance Practices. Although some authors, most notably Hansmann and Kraakman (2001), argue that the outsider-monitoring model found in US and UK firms are “emerging” as global standards, the local rules in many countries have not been dismantled. Hence, several authors suggest that continuity and change in institutions often co-exist and create hybrid systems (Jackson and Moerke, 2005; Ahmadjian and Okumura, 2006). This co-existence provides individual firms with some discretion in the choice of their governance system. It is somewhat simplistic to view corporate governance change as a monolithic shift from one regime to another where all organizations make a transition from one set of practices to another. Instead, pressures for corporate governance change can lead to hybrid practices that combine the local practices with new models that are often imported from other institutional contexts. Institutional change is often very complex. Firms and states do not simply discard the old models and adopt new practices, especially those imported from different institutional contexts (Deeg and Jackson, 2007).

Facing various isomorphic pressures from external and internal sources, actors can respond by making strategic choices. They can, for example, acquiesce, compromise, or defy, based on circumstances and institutional constraints that they find themselves in (Oliver, 1991; Child, 1997). Some engage in local tailoring (Westney, 1993) or local translation (Buck, Shahrin and Winter, 2004; Buck and Shahrin, 2005) by modifying foreign practices to suit the local institutional and cultural context and creating hybrid systems (Jackson, 2003). Focusing on Japanese firms, Ahmadjian and Okumura (2006) suggest that the emerging Japanese system will be a hybrid of Anglo-American and Japanese practices and that there are many possible hybrid forms that the Japanese system may embrace. This is because, in response to institutional pressures, each actor often has strategic choices. Yoshikawa, Tsui-Auch and Rasheed (2008) in their study of M&A activities in Germany and Japan found that as firms in these countries strive to find a balance between the external pressures for more shareholder- or market-oriented practices and locally embedded rules and norms, they develop hybrid practices that are not only different from the traditional practices of their countries but also different from the prevailing practices in the Anglo-American context. These hybrid responses to institutional pressures are strategic choices that the firms have made to the multiple and often competing objectives and interests of their key stakeholders (Oliver, 1991; Child, 1997). Studying these hybrid practices as they emerge and evolve can provide rich insights on whether convergence is inevitable or not. Comparative research will be especially appropriate here, because each country is likely to generate a different type or types of hybrid form.

Furthermore, a hybrid mode may differ by firm as well as by industry. For example, large firms may be more willing to embrace new practices, while smaller firms may be adamantly against them. Khanna and Palepu’s (2004) study of Infosys, the Indian software giant, suggests that convergence is not necessarily a national level phenomenon. Infosys voluntarily decided to exceed all legally required disclosure requirements in India and is considered an exemplar of good corporate governance. The most interesting insight from their study is that convergence can be specific to indus-

tries and even individual firms within industries. It is possible that the ideal corporate governance structure may be industry specific and even firm specific (Yoshikawa *et al.*, 2007); hence, each firm may have different incentives to adopt new practices. For example, Khanna and Palepu (2004) found that the software industry in India has better governance indicators than other industries in India and within the software industry Infosys has the highest governance rating by a significant margin. It is possible that firms with greater global exposure and firms in industries that face global competition may be more likely to deviate from local practices and hence their hybrid modes have more similarity with the US model than other more domestic-oriented firms. Therefore, future research focusing on specific industries and specific firms within industries can provide insights that would be missed by studies at the national level.

Incorporating the Role of Regional and Global Institutions in Governance Research. Past research investigating the role of institutions in shaping governance practices has traditionally treated institutions as national in origin and unchanging in nature. Future research needs to re-examine both these assumptions. The increasing pace of economic integration, both at the global and regional levels, has given rise to a whole new set of institutions. At the regional level, the European Union exemplifies the development of regional institutions that has an influence on every aspect of economic activity within that region. The rise of the regional and global institutions suggests that any examination of the institutional environment would be incomplete unless these supra national institutions and their role are not taken into consideration. In this line of research, researchers can investigate the interactions between the regional pressures for change and domestic forces that resist such change. The increasing initiatives to harmonize at the regional level can possibly lead to a “clash of capitalisms conflict” as suggested by Callaghan and Hopner (2005). It would also be interesting to examine the national government’s role in the interactions among different actors, which in turn should shape the direction of corporate governance change at the regional level. After all, the state still plays the role of an intermediary between external pressures and domestic forces.

Governance Changes among Firms with Concentrated Ownership, Especially Family-Controlled Firms. The writing on convergence often seems to assume that governance systems are divided into two distinct categories – the “market based” US system and the “relationship-oriented” or “stakeholder-based” models found in such countries as Germany and Japan (Kaplan, 1997; Jackson and Moerke, 2005). The emergence of a number of nations with their own distinctive governance systems as major players in the global economic scene makes this distinction something of an oversimplification. Somewhere between the public firm controlled by professional managers and owned by dispersed shareholders on the one hand and the privately held firm where a founding family or group of investors own all the shares on the other hand, lies a widely prevalent but little researched category of firms, namely, firms that are publicly

listed but substantially owned and controlled by a founding family (Burkart, Panunzi and Shleifer, 2003). The assumption of a clear separation between management and ownership that is so central to much of the academic writing on governance has little relevance to such firms.

In a number of countries such as India and Korea as well as most of the countries in Latin America, the controlling interests of public firms often reside with the founding family. Minority shareholders have little voice and instead of principal-agent problem, the basic governance issue is a principal-principal problem and its satisfactory resolution is vital to the functioning of the corporate sector in these countries (Young, Peng, Ahlstrom, Bruton and Jiang, 2008). The very notion of a publicly listed company is relatively new in countries such as Russia and China where public corporations and their complementary institutions are being created simultaneously. These countries provide the researcher with an opportunity to study the evolution of governance systems in compressed time. That is, whereas Fligstein’s (1990) study of the various legislative efforts to prevent concentration of ownership and control in the U.S and the response of firms to these legislations was spread over a 120-year period, the emerging economies afford us an opportunity to study such developments in real time and over much shorter time periods. Whether such firms with different management and ownership structures would adopt the “US” governance system for either economic reasons or symbolic purpose is an interesting issue. It is expected that various firm-level characteristics such as global market exposure, firm strategy, management orientation, as well as institutional-level factors would affect their inclination to adopt new governance practices.

Distribution of Power within Societies and Its Relationship to Governance Change. Any system of governance, in the final analysis, is a reflection of the distribution of power within a society. In the US, there is a long history of effort by the state to influence the governance of corporations dating back to the Sherman Antitrust Act of 1890 to the Sarbanes-Oxley Act of 2002. Despite these legislations, the role of the state in the US is far less than that of countries such as Singapore and China. The power that labor unions enjoy in Germany does not have parallels in other developed economies and reflect the comparatively higher power enjoyed by this stakeholder group in Germany. Therefore, it would seem that real convergence is unlikely to happen, given that different societies have reached different equilibrium points with regard to the distribution of power. We believe that research examining the linkage between the evolution of governance practices and the changing power relationships among different sectors of a nation would yield interesting insights about the likelihood of convergence across countries as well as the impediments that stand in the way of such convergence. This line of research should also provide insights on possible hybrid practices that may emerge in each nation.

Need for More Fine-grained, Longitudinal Field Studies. Finally, we believe that besides large sample empirical studies on convergence, it is important to have qualitative case studies that can provide us with a better

understanding of this complex phenomenon. For example, when we attempt to examine the interactions among key actors in shaping the direction of the corporate governance regime, the qualitative approach can allow us to unpack this complex phenomenon. In addition, corporate governance change is often influenced by factors at multiple levels. This type of study also allows us to go beyond the debate of whether convergence is taking place or not. From Fligstein's (1990) longitudinal historical study of the transformation of corporate control in the US to Khanna and Palepu's (2004) study of Infosys, there is a rich tradition of qualitative studies in governance research. However, each one of these studies is a single country study. In comparative capitalism literature, however, case-based approach has widely been used (Jackson and Deeg, 2008). We believe research on governance convergence can be advanced by cross-national comparative case studies that examine the intricate interactions among various actors at different levels.

CONCLUSIONS

Our review also reveals some important areas of weakness in governance research. First, although empirical studies have focused on movement towards increasing similarity across countries, there is as yet no operational agreement on a threshold of similarity that would constitute convergence. Greater attention to the degrees and qualities of isomorphism between converging or diverging systems of governance would help us to develop a more accurate and richer understanding of this phenomenon. Second, prior studies of convergence have focused on different levels of analysis such as systems, rules, regulations, structures, and processes. This makes comparisons across studies difficult. There is a compelling need to undertake multilevel analysis that would provide more comprehensive insights into the process of convergence given that the speed at which these different aspects converge or fail to converge may be very different. Finally, in order to empirically demonstrate convergence, it is imperative that we undertake longitudinal studies. This is because convergence is a process that unfolds over relatively long periods of time. While a cross-sectional study can identify similarities between two countries, the existence of such similarities does not constitute definitive evidence of convergence, in the absence of knowledge about prior states.

Applying the analytical review framework presented in Figure 1 to the body of research we reviewed presents several interesting insights. First, unlike in other areas of research, a number of studies have focused on examining whether the phenomenon of convergence exists or not (Guillen, 2000; Markarian *et al.*, 2007). Second, very few studies have considered both the drivers and impediments simultaneously in their empirical models. Third, while the majority of studies focus on the antecedents of convergence, there has been virtually no examination of the consequences of convergence either at the national or firm level.

The empirical evidence that has accumulated over the last decade provides only minimal support for the "end of history" predictions that Hansmann and Kraakman (2001) advanced with prophetic zeal and normative inevitability. At

the same time, the competing prediction of the "perpetual acceleration of history" (Charny, 2004) is also not supported by empirical evidence. Convergence, where it occurs, often appears contingent on a number of other factors. Further, in many cases, convergence seems to be more a matter of form than substance. Whether Hansmann and Kraakman's predictions about convergence were merely premature or fundamentally in error, only time will tell. Meanwhile, from a researcher's standpoint, what is truly important is to understand the underlying processes that facilitate, slow down, or even prevent corporate governance convergence.

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