The Diffusion of Ideas over Contested Terrain: The (Non)adoption of a Shareholder Value Orientation among German Firms

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This study offers a sociopolitical perspective on the international spread of corporate governance models. We unpack the heterogeneity of interests and preferences across and within types of shareholders and senior managers over time in an analysis of the adoption of a shareholder value orientation among contemporary German firms. Using extensive data on more than 100 of the largest publicly traded German companies from 1990 to 2000, we find that the influence of major shareholder groups (e.g., banks, industrial corporations, governments, and families) and senior manager types (differing educational backgrounds and ages) can be clearly observed only after redefining these key actors according to common interests and preferences. We also find evidence that German firms engage in decoupling by espousing but not implementing a shareholder value orientation but show that the presence of more powerful and more committed key actors reduces the likelihood of decoupling. We discuss the implications of our findings for research on symbolic management, the diffusion of corporate practices, and the debate over the convergence of national governance systems.●

Given the importance and ubiquity of the publicly held corporation in modern societies, organizational researchers and public policy makers have often debated the following corporate governance question: in whose interest should the public corporation be governed? But while answers to this and related corporate control questions have traditionally been provided in a national context, the last two decades have witnessed a growing interest in the field of international corporate governance. A significant stream of research has focused on documenting and explaining the diversity of corporate governance systems across countries (see Boyd, Carroll, and Howard, 1996; Bradley et al., 1999; Guillén, 2000, for reviews). An important element of much of this research is the comparative analysis of how different countries view the public corporation: as an economic entity whose purpose is to maximize shareholder value versus a social institution whose purpose is to further the interests of the corporation itself, typically considering the interests of multiple stakeholders, including shareholders, employees, creditors, customers, and the society in which the corporation resides. The former view is typically identified as the Anglo-American model of governance, while the latter view is more often found in other parts of Europe and Asia.

Recently, a number of scholars, particularly those in financial economics, have argued that this longstanding international diversity will soon be replaced by a unified, Anglo-American shareholder-centered model of corporate governance (e.g., Rubach and Sebora, 1998; Coffee, 1999). Hansmann and Kraakman (2001: 468) suggested that "the triumph of the shareholder-oriented model of the corporation over its principal competitors is now assured." Similarly, Bradley et al. (1999:14) argued that the Anglo-American governance system, while not without its own idiosyncratic features, "is clearly emerging as the world's standard." Most of these authors see the diffusion of a shareholder-centered governance model as driven by increasing competitive pressures in

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international capital markets (e.g., Useem, 1996; Rubach and Sebora, 1998). Hansmann and Kraakman (2001) contended that corporations that adopt a shareholder-oriented governance approach will enjoy access to capital at a lower cost, providing them with a competitive advantage over those nonadopting firms. Similarly, Coffee (1999) suggested that global convergence will emerge "through the back door," where foreign firms seeking to list on U.S. stock exchanges will voluntarily adopt shareholder-oriented governance practices in order to gain access to American investors.

Some researchers have also suggested that growing convergence is due to product market pressures (Hansmann and Kraakman, 2001; Höpner, 2001; Khanna and Palepu, 2001). Firms following a shareholder value model may have a competitive advantage in product markets because their governance structure allows them to adapt more rapidly to a changing environment. Unencumbered by other stakeholder interests, such corporations may have superior capabilities in reorganizing their management structures, allowing them to enter new product markets aggressively or to abandon inefficient investments more rapidly. Product-market competition is also seen as driving convergence through social learning, because international product market rivalry brings other firms in direct contact with firms adhering to a shareholder-oriented approach (Hansmann and Kraakman, 2001).

Rather than joining the debate as to whether new convergence or old diversity in governance systems is the more likely international scenario in the future, we propose instead to contribute to a greater understanding of the diffusion of governance models by going beyond existing explanations that focus on financial or product-market pressures. Fundamentally, governance models such as shareholder value management are normative belief structures about the allocation of power in the firm. Such a view is consistent with a large body of research suggesting that corporate control is political (e.g., Cyert and March, 1963; Davis and Thompson, 1994; Westphal and Zajac, 1994; Ocasio and Kim, 1999; Fligstein, 1990, 2001). As a belief structure—rather than simply a single technique or practice—additional political, social, and psychological factors are likely to play a role in explaining the diffusion process (Strang and Soule, 1998; Westphal and Zajac, 2001).

Here, we develop a theoretical explanation that gives much closer attention to the macro and micro sociopolitical aspects of the diffusion process, using the empirical context of the spread of a shareholder value orientation among German firms, which has multiple theoretical and empirical benefits. First, it provides an opportunity to demonstrate the value of a detailed theoretical and empirical examination of shareholder heterogeneity (cf. Palmer and Barber, 2001). Most research in financial economics tends to treat corporate owners as a homogeneous group with a singular interest on maximizing shareholder value (Bagwell, 1991). In contrast, we use the German context to show that when owners are banks, firms, governments, and families—the major ownership groups in German corporations—the cross-currents of divergent sociopolitical interests among and within ownership groups

are particularly vivid, allowing for more nuanced hypotheses on the role of specific owners in the diffusion process of the shareholder value orientation.

We also go beyond existing approaches by considering not only the diversity of preferences held by powerful owners but also the diversity of preferences among powerful German managers and its effect on the diffusion of a shareholder value orientation in Germany. Finally, our emphasis on the sociopolitical factors affecting the diffusion process leads us to consider explicitly the symbolic management of stakeholders (Westphal and Zajac, 1994, 2001; Zajac and Westphal, 2004), emphasizing how firms use language and appearance to symbolize their level of identification with a particular governance regime. We assess whether public espousal of a shareholder value orientation is accompanied by the implementation of structural changes in governance practices, and we examine the factors that would reduce the likelihood of a firm's decoupling espousal from implementation. In doing so, our study offers a richer theoretical and empirical analysis of the sociopolitical forces that affect the diffusion of a major reconceptualization of the corporation beyond the boundaries of the United States.

THE DIFFUSION OF A SHAREHOLDER VALUE ORIENTATION

The Empirical Context

Our choice of Germany as a context for studying the diffusion of a shareholder value orientation is based on two factors. First, both Germany and the U.S. are highly industrialized countries. Second, Germany provides a strong contrast based on significant historical differences in social, political, and legal environments (La Porta, Lopez-de-Silanes, and Shleifer, 1997, 1999). In fact, Germany has frequently been cited as the classical case of a non-shareholder orientation, as evidenced by the original German corporate law of 1937, which stated that the company was to be managed for the good of the enterprise and its employees (*Gefolgschaft*), the common wealth of the citizens (*Volk*), and the state (*Reich*) (cited in Bradley et al., 1999: 52). Moreover, a company can be dissolved by the state if it endangers public welfare. As noted earlier, from this orientation, the corporation is seen as a social institution with public responsibilities, and shareholders are only one of several stakeholders on whose behalf the managers must operate the firm.

One important group of corporate stakeholders in Germany are the German banks, which represent one of the main pillars of the German corporate governance system (Jürgens, Naumann, and Rupp, 2000). German banks have played a central role in the historical development of German corporations. They were among the primary financiers of German industrialization and the great wave of company foundings of the 1870s, thereby laying the foundation for the dominating role of the banks in company financing and supervision. Germany's reconstruction after WWII was likewise financed above all by credit, again giving domestic banks a central position in the Germany economy. Furthermore, a relatively large share of the national income in Germany is generated

by foreign trade, and such trade tends to make extensive use of bank services, thus tying corporations closely to their house banks (Francke and Hudson, 1984). For example, German firms have relied on credit to a far larger degree than firms in other countries (Edwards and Fischer, 1994).

The important position of banks as financial intermediaries is also enhanced by the German system of universal banking. While the Anglo-Saxon banking system has tended to be highly segmented, German banks offer a full range of banking services to their clients, ranging from taking deposits and handling payment transfer to credit financing for industry and trade. Most banks also deal in securities, although only a few large banks have underwritten public offerings (Kempf, 1985). Traditionally, only very large German companies have made use of international capital markets, while the vast majority of mid-size corporations—the *Mittelstand*—has relied almost entirely on credit financing, a tendency partly due to the legal hurdles that have discouraged smaller companies from issuing stock (Herrigel, 1996; Dore, 2000). As a result of this universal banking system and the reliance on credit financing, the German stock market has remained comparatively small in an international perspective and is frequently characterized as underdeveloped (e.g., Black and Moersch, 1998; Schmidt, Hackethal, and Tyrell, 2001). Debt-to-equity ratios of industrial firms tend to be about 50 percent higher than those in the United States or the United Kingdom (Schröder and Schrader, 1998). Furthermore, unlike in the U.S., the market for corporate bonds has never been a true alternative for external corporate financing in Germany. High commissions payable for arranging bonds and cumbersome legal requirements provide strong disincentives for most corporations, making the market for corporate bonds practically non-existent (Kempf, 1985). Although an alternative way of raising funds is through "certificates of indebtedness," essentially, large loans that in many ways resemble bonds, only very large corporations are usually in the position to raise funds this way.

Banks have also been the dominant representatives of shareholder interests in Germany. German banks control significant shareholdings in most of the largest German firms (Baums and Fraune, 1995). The banks' control is further strengthened by the German "Depotstimmrecht," a legal agreement that combines the votes of millions of small shareholders in the hands of a small number of banks in which these bearer shares are deposited. Traditionally, banks have been more interested in keeping large corporations as profitable debtors rather than taking the risk of losing them due to higher profit expectations. Ownership concentration has also tended to reduce the threat of hostile takeovers, which are usually not possible without the support of banks and other incumbent blockholders, such as family owners and other firms. The mergers and acquisitions that have taken place have mostly been friendly deals, as the representatives of different shareholders and managers meet again and again in the supervisory boards of large corporations and thus have an interest in continued cooperation (Schmidt, Hackethal, and Tyrell, 2001). The dense system of interlaced relationships, in combination with an extensive network of crossholdings—German com-

panies often even own shares of their competitors—constitutes an insider system of control that has largely protected German managers from outside raiders and new investors.

A second pillar of the German corporate governance system is the system of co-determination, as expressed in the role of works councils and the dual board structure of the management board and supervisory board. Under the co-determination system, elected worker representatives have rights of information, consultation, and veto on a number of issues, and in firms with more than 2,000 employees, half of the supervisory board consists of employees of the firm, the other half of shareholder representatives. This legal arrangement makes labor representation an integral part of the corporate governance system and reflects the German concern with the responsibility of the firm to its various stakeholders.

The third pillar of the German system of corporate governance is the productionist, company-centered orientation of German senior management (Jürgens, Naumann, and Rupp, 2000). A classic description of this productionist, engineering-oriented focus of the German managerial ideology is given by Lawrence (1980: 134): "The idea that a firm is not a 'money-making machine' but a place where products get designed, made and eventually sold, with profits ensuing, tends in Germany to restrict the allure of accountants and financial controllers and to dignify the makers and those associated with them." This orientation has been associated with a higher status and higher representation of engineers in the senior management ranks of German corporations, even in non-technical areas (Eberwein and Tholen, 1993). It also has been associated with a greater emphasis on productionist objectives over financial objectives, making shareholder value maximization less of a focus of senior managers. It is therefore not surprising to find the managerial elite in Germany frequently voicing statements such as "Profit is good, but not everything" (from the longtime chairman of the Deutsche Bank, Herman Josef Abs). Similarly, the chairman of Bosch, another large German firm, emphasized that the success of a company could not be measured in money alone (both quoted in *Der Spiegel,* 1997).

The fact that these three pillars of corporate governance in Germany give relatively little explicit attention to shareholders has led to the conclusion that the German governance system "does not put financial value for shareholders at the top of the list of business policy objectives" (Jürgens, Naumann, and Rupp, 2000: 66). Likewise, Standard and Poor's suggested in 1997 that in Germany, "the interests of the shareholder are secondary—at best" (quoted in *Der Spiegel,* 1997). German corporate law clearly views the shareholders as only one among several stakeholders, and not a privileged constituency (Bradley et al., 1999). In many respects, the shareholder may be termed the "forgotten" stakeholder in the German corporate governance system, a view that is reflected in an aphorism by the famous German banker Carl Fürstenberg (1850–1933): "The shareholder is dumb and impudent: dumb, because he invests his money in shares of stock, and impudent, because he also expects dividends in return" (our translation).

This German view of shareholders is noteworthy both because of its longstanding tradition and its striking departure from the Anglo-American shareholder value orientation, but the German situation began to change with the increasing internationalization of capital markets that emerged in the mid-1980s. Some of the largest German corporations began to rely more on foreign investors. For example, in 1986, only 23 percent of the shares of VEBA, a sizable and high-profile corporation, were held by foreign investors. In 1991, this number had risen to 43 percent (*Manager Magazin,* 1991).[1]

A number of government measures were also aimed at liberalizing financial regulation and promoting the growth of the German stock market. Between 1990 and 1998, the German government enacted a series of three Financial Market Promotion Laws that created new markets in options and futures, set up a new regulatory body (the Federal Supervisory Office for Securities Trading), and made it easier for German companies to implement stock options and internationally accepted accounting standards.

With this changing financial landscape, a growing number of German firms during the 1990s also publicly proclaimed their adoption of a shareholder value orientation. Figure 1 shows the diffusion of espousal of a shareholder value orientation in annual reports among the 112 largest publicly traded German firms between 1990 and 2000. For German firms, the annual report is still the most important means of self-presentation, for announcing strategic change, and communicating with shareholders and other stakeholders. Although not a single firm had publicly adopted a shareholder value orientation in 1990, more than 60 percent had done so by the end of the observation period. To explain this change, we begin by theorizing about the power of the firms' owners.

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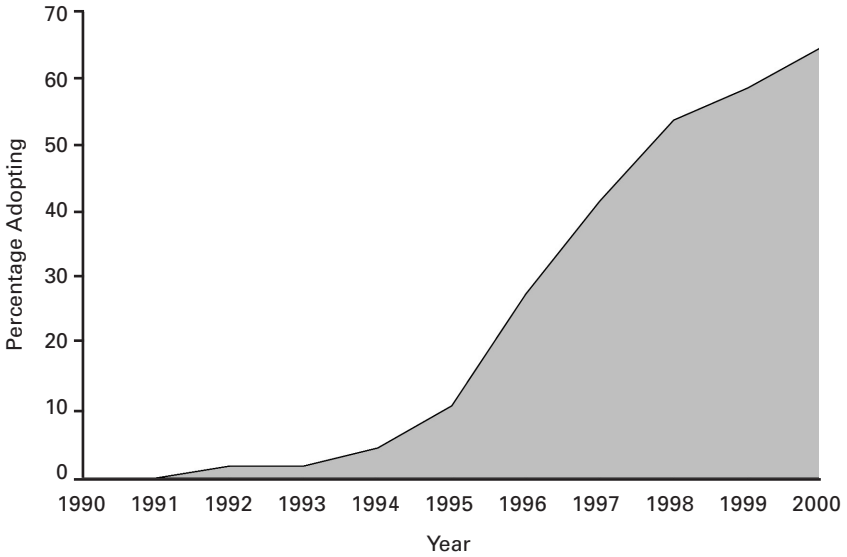
This internationalization of capital markets went along with the emergence of institutional investors in Germany. The shareholdings of institutional investors more than quadrupled between 1992 and 1997, from 66.5 to about 285 billion dollars. This development is driven by the increasing activity of U.S. investment funds and the emergence of domestic institutional investors; by 1999, there were 25 such domestic financial institutions that concentrated their activity mostly on those firms included in the DAX-30 index (Jürgens, Naumann, and Rupp, 2000: 71).

Figure 1. Diffusion of shareholder value management espousal among the 100 largest German corporations.



Powerful Owners and Their Preferences

A growing body of research has examined the diffusion of administrative and organizational practices among corporations (e.g., Teece, 1980; Zucker, 1983; Davis, 1991; Abrahamson, 1991; Davis and Greve, 1997; Westphal, Gulati, and Shortell, 1997; Strang and Soule, 1998). With few exceptions, this prior research has largely neglected how power constellations affect diffusion processes, even though organizations are political arenas in which struggles over diverging interests take place (Cyert and March, 1963; Palmer et al., 1987; Davis and Thompson, 1994) and adoption of a specific practice may have significant consequences for the allocation of power and resources.

A crucial issue in regard to a firm's power constellations relates to its ownership structure. Research in financial economics has generally treated owners as a homogeneous group, assuming they all share the same goal of maximizing shareholder value (cf. Bagwell, 1991, 1992; Ravasi and Zattoni, 2001). As a result, ownership tends to be seen as a purely economic variable and its influence as a function of ownership concentration (Kang and Sørensen, 1999). In contrast, a number of works in organization theory have suggested that different categories of owners may pursue different goals, leading to a differential effect of owner types on the adoption of the multidivisional form (e.g., Palmer et al., 1987; Palmer, Jennings, and Zhou, 1993) or hostile and diversifying acquisitions (e.g., Davis and Stout, 1992; Palmer et al., 1995; Palmer and Barber, 2001). If ownership of the firm is distributed across different types of actors, the identities of these actors will likely affect the priorities they give to pursuing shareholder value management versus other goals (Vitols, 2002).

In this study, we build on this prior work by emphasizing the divergent political and social interests of corporate owners and asking whether the interests of ownership groups such as banks, firms, governments, and families differ both across and within groups. If powerful owners themselves promote a shareholder value orientation, this should accelerate the spread of such a governance regime among a population of firms. Accordingly, ownership ties between firms may frequently be the ties along which power can be exercised to facilitate adoption of a governance model. We largely follow Gorton and Schmid (2000) in categorizing the most important ownership groups in Germany as (1) domestic banks, (2) domestic and foreign non-financial firms, (3) domestic governments, and (4) families.

German banks, which occupy a central role in the German corporate governance system, were traditionally more interested in keeping corporations as profitable debtors rather than taking the risk of losing these clients due to increased expectations of share profits. This would suggest that German banks would not be likely to push firms in which they hold shares to adopt a shareholder value orientation. As the internationalization of capital markets increased in the 1990s, however, a number of German banks voiced a desire to become global players in the same league as major American

banks (Dore, 2000). In particular the "Big Three" commercial banks—Deutsche Bank, Dresdner Bank, and Commerzbank—became increasingly concerned with the yield on their share holdings. In redefining their strategies, these banks began to perceive shareholding as an asset management rather than a long-term investment, as used to be the case under the previous system of "patient capital" (Jürgens, Naumann, and Rupp, 2000; Vitols, 2003). The result of this process is an increasing demand by some German banks for shareholder value management, while others have abstained from pushing for a shareholder-centered approach. These arguments suggest a differential effect for bank ownership that depends on the position of the shareholding bank. In terms of espousing a shareholder value orientation, this suggests the following hypothesis:

Hypothesis 1a (H1a): The higher a firm's ownership by German banks that have espoused a shareholder value orientation, the more likely a firm will be to espouse a shareholder value orientation.

As noted earlier, the management of German non-financial firms has traditionally been dominated by a productionist conception of the corporation that conflicts with a shareholder value orientation (Jürgens, Naumann, and Rupp, 2000). In the past, German managers have frequently exhibited disdain for the demands of the stock market, which they consider fickle and short-sighted (Lawrence, 1980). The tradition of a productionist orientation among non-financial firms would therefore suggest that in their role as owners, non-financial firms will inhibit the spread of a shareholder value orientation among other firms. As shareholding firms themselves proclaim their change to a shareholder-oriented governance regime, however, we expect them to exercise their owner influence to promote a similar change among other firms. These arguments again suggest a differential effect of shareholdings for non-financial firms that depends not only on the size of their shareholdings but also on the owning firm's interests:

Hypothesis 1b (H1b): The higher a firm's ownership by other German firms that have espoused a shareholder value orientation, the more likely a firm will be to espouse a shareholder value orientation.

Considerable shareholdings in a number of German firms are also controlled by government entities at the federal and state (*Bundesland*) level. Prior researchers have argued that government owners tend to pursue political rather than value-maximizing objectives (e.g., Shepherd, 1989). This view is supported by financial economists, who have argued that block ownership allows government entities to pursue political objectives while the public pays for the losses (Shleifer and Vishny, 1994; La Porta, Lopes-de-Silanes, and Shleifer, 1999). Although this view suggests that owner interests may differ depending on party ideologies and objectives, very little research has empirically examined such differences. We consider such differing party ideologies here and the party-dominated coalitions that form these governments.

The German political landscape is dominated by two large parties. The Social Democratic Party of Germany (SPD) has

its roots in the workers' movement of the late nineteenth century. Positioned on the left of the political spectrum, it is generally more closely identified with the interests of labor. The conservative Christian Democratic Union (CDU) is the main right-of-center party and has traditionally had a strong pro-business wing (Katzenstein, 1987). During the 1990s, both the SPD and CDU formed governments at the federal and state level, either alone or in coalition with smaller parties.

In relation to changes in the German corporate governance system, Roe (2000) suggested that social-democratic parties tend to impede the implementation of governance practices aimed at aligning the interests of managers and shareholders. In line with this view, German pro-labor party officials have severely criticized a shareholder value approach. For example, Oscar Lafontaine, then chairman of the Social Democratic Party, publicly denounced shareholder value as an intellectual disorientation ("geistige Fehlorientierung") and insisted that the primary goal of the corporation ought not be increased share prices but the "social responsibility to the employees . . . and to society at large" (*Handelsblatt*, 1997a: 2; see also *Der Spiegel*, 1996a).[2] In contrast, CDU-dominated governments, though arguing for a restrained version of shareholder value management, have been more supportive of a move toward shareholder value (e.g., *Der Spiegel,* 1996b; *Handelsblatt,* 1997b). We therefore posit that the effect of firm ownership by state and federal governments will differ depending on whether these governments are dominated by a pro-business or pro-labor party or coalition. This suggests the following hypothesis:

Hypothesis 1c (H1c): The higher a firm's ownership by pro-business German federal or state government, the more likely a firm will be to espouse a shareholder value orientation.

There is also reason to believe that the presence of family blockholders will affect a firm's decision to adopt a shareholder value orientation. Family owners still play an important role in German corporations (Whittington and Mayer, 2000; Gorton and Schmid, 2000). Traditionally, the literature on family ownership has held the view that family capitalists are primarily interested in the long-term survival of the capitalist economic system (Atkinson and Galaskiewicz, 1988). Accordingly, family owners are considered to take a long-term management view that stresses firm survival with the intention of passing the firm on to descendents (Becker, 1974; Casson, 1999; Anderson and Reeb, 2002). Because they are interested in maintaining control over the firm, family owners are also considered to be averse to a decentralization of power; for example, family dominance inhibited the adoption of the multidivisional form (Palmer et al., 1987).

This view of family owners as protective stewards has more recently been challenged by arguments that the interests of family members may be less homogeneous than commonly assumed (e.g., Kang, 1998; Kang and Sørensen, 1999; Lansberg, 1999) and that the interests of succeeding family generations may be quite different from those of the founding generation. There is reason to believe that later generations

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More recently, the Social Democratic Party has shown greater support for changes in corporate governance legislation (Höpner, 2003).

of family owners often do not share the founder's longer time horizon and concern for firm survival but are interested instead in "cashing out" and using the family assets for their own personal benefit. Kang (1998) has described declining firm performance and less effective strategic decision making by later-generation family owners as the "Buddenbrooks Effect," drawing on Thomas Mann's novel of that name in which "the first generation . . . builds, the second consolidates, the third dissipates" (Salin, 1952: 371). The idea of ascent and decline across three generations of family business (e.g., "clogs to clogs" or "rags to rags") has been found across many societies (Ward, 2004), and there are various explanations. Later generations may be less motivated or able to run the family business, and larger families in succeeding generations are often marked by conflict due to different interests and values (e.g., Neubauer and Lank, 1998; Ward, 2004). In those later generations, "the family may be held together by nothing more than their common financial interests, and if the returns on their investment are not better than what they could earn elsewhere, some stockholders may seek opportunities to sell their shares in the family corporation" (Gersick et al., 1997: 219). This suggests that a shareholder value orientation may be quite compatible with the views of third- or later-generation family blockholders. We suggest a contingent relationship in which later-family owners support a shareholder value orientation while first and second generation family owners are less inclined to do so:

Hypothesis 1d (H1d): The higher a firm's ownership by German families beyond the second generation, the more likely a firm will be to espouse a shareholder value orientation.

Powerful Managers and Their Preferences

Normative belief structures are not likely to be adopted solely according to corporate power and control considerations. The sociopolitical perspective also highlights the fact that ideas about the fundamental purpose of the corporation and possible changes in those ideas are likely to have a cognitive underpinning. This cognitive aspect of the possible adoption of a shareholder value orientation may be reflected in the characteristics of top executives, particularly in the demographic differences that have been shown to influence decision making and strategic change (e.g., Hambrick and Mason, 1984; Finkelstein and Hambrick, 1990; Wiersema and Bantel, 1992; Belliveau, O'Reilly, and Wade, 1996; Hambrick, Cho, and Chen, 1996; Jensen and Zajac, 2004). Specifically, educational background and age may influence the susceptibility of corporate elites to a shareholder value orientation.

Educational background often shapes managers' mental models, and a firm's likelihood of adopting a different governance model should depend on how this model fits with managers' existing mental models. A considerable body of research provides support for the important role of such mental models or schemas in influencing how new information and prior knowledge are integrated (Daft and Weick, 1984; Schwenk, 1988; Barr, Stimpert, and Huff, 1992; Reger et al., 1994). Furthermore, mental models are usually difficult to change once they become entrenched (Bartunek, 1984;

Reger et al., 1994). As a result, existing mental models should affect the willingness of managers to adopt a different conception of what a firm is and how it should be governed (cf. Hirsch, 1986; Espeland and Hirsch, 1990; Fligstein, 1990, 2001). Furthermore, such mental models are often shaped by educational background. Formal education affects perspectives and outlooks, and the type of academic degree has been shown to significantly influence strategic decision making among executives (e.g., Hitt and Tyler, 1991; Wiersema and Bantel, 1992; Hambrick, 1994; Hambrick, Cho, and Chen, 1996). As a result, managers who were educated in engineering, for example, are likely to have different cognitive models than managers who were trained in history or law (Hambrick and Mason, 1984: 200).

Such arguments suggest that educational background will also affect the likelihood that an executive will embrace a shareholder value position. Both shareholder value management and agency theory have their origins in the fields of law and economics, in which the firm is generally considered to be a profit-maximizing function or a nexus of contracts, rather than a political coalition or a place for designing and manufacturing products. Given the strong roots of a shareholder value orientation in law and economics, corporate elites educated in either law or economics should be more predisposed toward a shareholder value orientation than those top executives with training in other areas, such as the humanities or the sciences:

Hypothesis 2a (H2a): If a firm's chief executive officer has a background in economics or law, that firm will be more likely to espouse a shareholder value orientation.

A number of studies have found that the greater an executive's age, the greater is his or her rigidity and resistance to change (Carlson and Karlsson, 1970; Vroom and Pahl, 1971; Wiersema and Bantel, 1992). Because a shift toward a shareholder value orientation presents a significant change in governance orientation, this would suggest that the age of executives should have a negative effect on the likelihood of their espousing a shareholder value orientation, as older executives should also have a greater psychological commitment to the status quo (Stevens, Beyer, and Trice, 1978; Hambrick and Mason, 1984). The same prediction would also be suggested by a cohort effect, because greater age should be associated with prolonged exposure of the top executives to the traditional German corporate governance orientation (Ryder, 1965):

Hypothesis 2b (H2b): The higher the age of the firm's chief executive officer, the less likely a firm will be to espouse a shareholder value orientation.

In addition, the relative influence of educational background on espousal may interact with executive age. Younger executives should be more likely to have experienced the rise of a shareholder value orientation when they were more cognitively flexible and thus open to forming their opinions. They would also be more likely to have an educational familiarity with the emerging nexus of contacts approach in corporate

governance, while the opposite would be true of older executives. This suggests that the effect of educational background will diminish with increasing age:

Hypothesis 2c (H2c): The relationship between educational background (in economics or law) and a shareholder value orientation espousal is significantly weaker for firms with older chief executive officers.

Espousal and Implementation

In following the traditional diffusion model, most previous studies have employed a binary dependent variable for adoption/non-adoption, but this approach "does not differentiate between 'superficial' and 'deep' adoption—that is, it reveals nothing about the extent to which the innovation has been employed" (Downs, 1976: 39). More recently, a number of studies have examined whether adoption is in fact decoupled from implementation. For example, Westphal and Zajac (1994, 2001) found that the symbolic adoption of long-term incentive plans and stock repurchase programs is frequently decoupled from their implementation, particularly in firms with powerful chief executive officers.

The concept of decoupling suggests that organizations may engage in actions that seemingly show compliance but actually conceal nonconformity (Oliver, 1991; Elsbach and Sutton, 1992). Consistent with Westphal and Zajac (1994, 2001), we are agnostic as to whether such actions are motivated by either well-intentioned senior managers, who believe the organization is better served by using symbols to placate those influential external constituents that they believe lack the perspective to assess the firm's long-run best course of action, or narrowly self-interested senior managers, simply focused on their own narrow career interests. Yet a closer consideration of the ownership groups and executive characteristics described above suggests that they may have different impacts on the likelihood of a firm's decoupling of a shareholder value orientation espousal from the implementation of commensurate governance practices.

Ownership groups may differ in their incentives and ability to monitor whether management follows through on its stated intentions. In the German context, corporate owners such as banks and other firms should be particularly effective at monitoring because of their long-term relationship with the firm, their frequent representation on the supervisory board, and sufficient resources and knowledge of the managerial process to ensure follow-through. Therefore, if corporate owners themselves espouse a shareholder value orientation, we would expect them to have both the incentives and the resources to ensure subsequent implementation of the commensurate governance practices. In contrast, non-corporate owners such as governments and family owners may have fewer incentives or organizational resources to assure structural changes. While pro-business governments may be more likely to support a move toward a shareholder value orientation, they still have to attend to the interests of several corporate stakeholders, making them less likely to invest the resources required to ensure follow-through. Later-generation

family owners may lack the monitoring resources or insight to ensure that a public espousal is accompanied by adoption of governance practices. We therefore expect a differential effect of ownership on implementation:

Hypothesis 3a (H3a): A firm's ownership by espousing corporate owners rather than non-corporate owners will predict implementation.

In contrast, factors relating to managerial predispositions should be consistent predictors of both espousal and implementation. If the normative belief structures of management favor a move to a shareholder value approach, then they should also predict implementation of the commensurate structural changes. Conversely, if older executives are less willing to publicly espouse a shareholder value orientation, they should also be less likely to support the introduction of shareholder-centered governance practices internally. Furthermore, top management will likely have the means to see the introduction of such changes through. These arguments suggest that the factors influencing managerial predispositions should predict both espousal and implementation of a shareholder value approach:

Hypothesis 3b (H3b): Managerial predisposition, as indicated by the CEO's age and educational background, will predict implementation.

METHODS

The sample for this study comprises the 100 largest publicly traded German companies as measured by both sales and market capitalization in 1990, the year that the German government enacted the first of three Financial Market Promotion Laws aimed at liberalizing financial regulation and promoting the growth of the German stock market.[3] Both lists overlap to a large extent, resulting in a sample of 123 companies. Of these, a total of ten companies were excluded: two because they went out of business within a year after the beginning of the observation period, three because they were mere holding shells without actual employees, and six because of missing data. The final sample thus consisted of 112 companies, and these accounted for over 80 percent of the total capitalization of the German stock market in 1990, representing essentially all major players among publicly traded firms in Germany during that year. The observation period begins in 1990 and ends in 2000. This observation window appears appropriate, given that a shareholder value orientation first emerged among German firms in 1992.[4]

Dependent Variables

Our emphasis on shareholder value orientation as a normative governance paradigm suggests the importance of language and symbolism as the vehicles by which an organization communicates its identification, or lack thereof, with that governance approach. For this reason, we focus primarily on a company's public self-presentation to capture whether a company espoused a shareholder value orientation, using data from a content analysis of the companies' annual reports. Two independent coders read these reports and coded for statements indicating the company's espousal of a

3
Of the largest German companies as measured by sales, a substantial percentage of companies are private, in the GmbH (limited liability) form. Such firms are not included in our study because they do not issue publicly traded shares to outside shareholders and thus cannot be expected to adopt a shareholder value orientation, which is based on stock market value. Furthermore, a small number of firms that were publicly traded but were in effect wholly owned subsidiaries of another firm were also not included in the sampling universe because they did not represent independent observations. For example, while RWE-DEA AG was listed on the stock exchange in 1990, another firm, RWE AG, held more than 99 percent of its shares, making RWE-DEA essentially a subsidiary of RWE. Accordingly, RWE-DEA was excluded from the sample, as its management and policies were essentially controlled by the corporate parent.

4
Given the lagged study design we used, in which independent variables in one year predict adoption in the next calendar year, the fact that there is no adoption in the year 1991 might bias quantitative analyses, decreasing the magnitude of positive effects and increasing that of negative ones. But excluding the first year of observations in our analyses had no effect on our results, and we therefore used data for the whole period from 1990 to 2000.

shareholder value orientation. Examples of such statements are ". . . boosting shareholder value is at the centre of the Metallgesellschaft Group's strategies and decisions" (Metallgesellschaft, 1995) or "raising shareholder value will remain our overriding goal" (Thyssen, 1997). Both coders were native speakers of German and were instructed to consider only statements that included either the English term "shareholder value" or its German translation of "increasing firm value" ("Unternehmenswertsteigerung"). The coding scheme thus contained very little ambiguity, and interrater agreement was high, at 0.916.

To measure the implementation of a shareholder value orientation, we collected data on the firms' adoption of three specific governance practices that are considered consistent with that orientation: (a) "value-based" management control systems, (b) stock option plans for management, and (c) internationally accepted accounting standards.[5] "Value-based" management control systems are an important way in which shareholder value management is implemented and are often linked to profitability goals specified by division or activity (Jürgens, Naumann, and Rupp, 2000). A number of different metrics and control systems have been developed, among them Stern Stewart's *Economic Value Added*, LEK's *Shareholder Value Added,* and the Boston Consulting Group's *Cash Flow Return on Investment* (*CFROI*). Differences between these metrics tend to be small, and all represent a "financialization" of management by explicitly tying performance evaluation to the interests of the shareholder. Adopting these control systems thus presents a credible commitment to shareholder-oriented management, and they are associated with "a quasi-religious element of shareholder fundamentalism" (Froud et al., 2000: 85). Value-based management systems are frequently coupled with stock incentive plans for managers. These programs are generally considered powerful tools for aligning the interests of management with those of the firm's owners and for implementing a shareholder value approach (e.g., Meyers, 1981).

Our third measure of commitment to a shareholder value orientation is the adoption of more transparent accounting standards such as U.S. Generally Accepted Accounting Principles (US-GAAP) or International Accounting Standards (IAS). For years, international analysts have criticized German corporations for not being investor friendly, because German accounting rules easily allow firms to hide large cash reserves or improve the balance sheet. The adoption of international accounting standards reduces the ability of managers to hide their assets and significantly strengthens the position of shareholders.

Implementation of these structural changes was coded both individually (i.e., whether the firm adopted any of these governance practices) and grouped (i.e., as the number of adopted practices). Data on a firm's use of value-based incentive systems and stock option plans for executives were collected from annual reports and were verified by contacting the investor relations or public relations departments of all firms that were still in existence in 2002. Data on accounting standards came from the *Worldscope* segment of the *Global*

5
In the U.S., these governance practices are often supplemented by the separation of the CEO and board chair position as well as the presence of independent directors, both of which are usually considered important governance mechanisms to protect the interests of shareholders (e.g., Pozen, 1994). In Germany, neither of these measures is applicable because the position of CEO and chair of the supervisory board are separated by law and other company officers are also prohibited from sitting on the supervisory board.

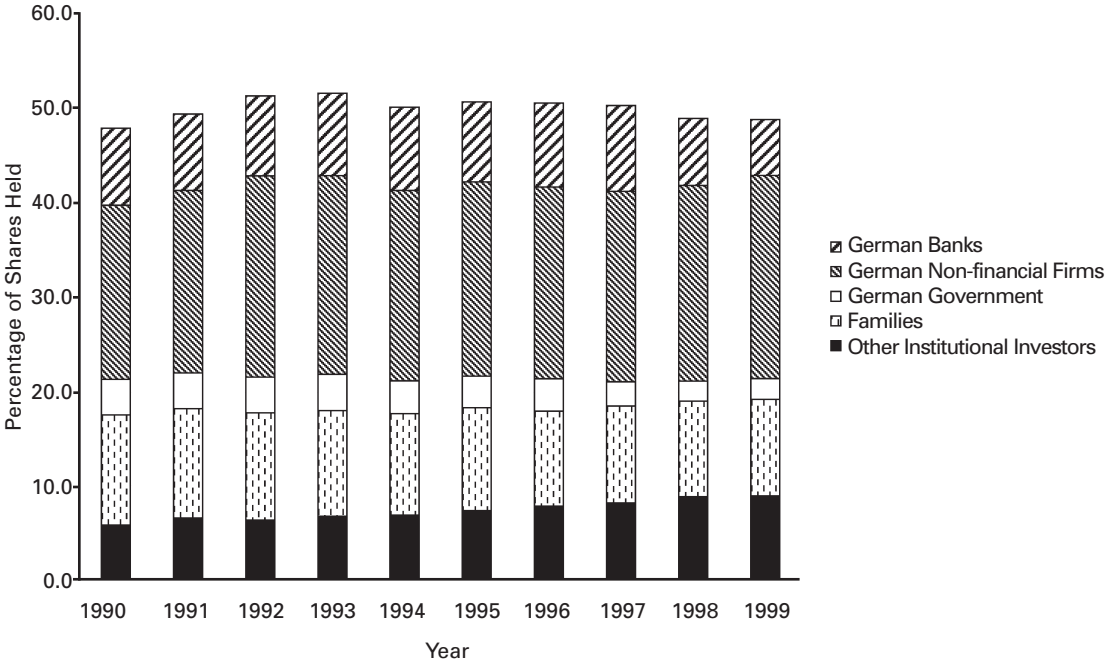
Access database maintained by Thomson Financial, and the variable was coded zero if the firm used local standards and one if it used internationally accepted standards (IAS or US-GAAP). If a firm used both a local standard and an international standard, it was classified as using the international standard, because that standard is considered to be more rigorous. These data were cross-checked with information from the firms' annual reports.

Independent Variables

Annual data on ownership of common equity came from *Worldscope* and were cross-checked with data from *Wer gehört zu Wem?,* a register of German firm ownership published triennially by Commerzbank. The data are corrected for super-voting shares to accurately reflect the voting rights of blockholders. Figure 2 presents descriptive information on shareholdings by the major ownership categories over time. German non-financial firms represent the most important ownership category, followed by family owners and domestic banks. The distribution among these ownership categories remains relatively stable over time, as does the overall percentage of shares controlled by these blockholder groups.

To measure the power of the ownership categories of interest (domestic banks, non-financial firms, government entities, and families), we used a categorical measure of ownership level with cutoff points tied to substantively significant levels of stock ownership. In Germany, 5 percent is the level at which owners have to disclose their blockholding and provides minimal minority protection, 25 percent (blocking minority) gives veto powers on a number of governance issues, 50 percent gives majority control, and 75 percent or more gives supermajority powers with extensive rights in

Figure 2. Percentage of shares held by major ownership groups.



terms of control agreements and supervisory board elections.[6] The ownership-level variable was coded for each owner group and was set to zero if that owner category controlled less than 5 percent of a firm's voting share, 1 for control over at least 5 percent but less than 25 percent of voting shares, 2 for control over at least 25 percent but less than 50 percent, 3 for control over at least 50 percent but less than 75, and 4 for control over 75 percent or more of voting shares. For each ownership category, we further created two groups of owners (espousing vs. non-espousing, pro-business vs. pro-labor, 1st and 2nd vs. 3rd or later generation) to contrast differences in these groups and verify that effects are not merely due to ownership levels per se.

Information about espousal of corporate owners came from our analysis of annual reports. For our measure of German federal and state governments as pro-business or pro-labor, we collected data on whether these governments were controlled by the German conservative or social-democratic party or party-led coalitions. To determine the effect of family ownership beyond the founder's generation, we collected data on the firm's age and categorized family holdings as being controlled by the founder or the founder's generation if the firm's age was less than 30 years. If the firm was more than 30 years but less than 60 years old, we categorized family holdings as being controlled by the family's second generation. If the firm was more than 60 years old, we categorized family holdings as controlled by the third or later generation.

Information on the CEO's age and educational background came from *Leitende Münner und Frauen der deutschen Wirtschaft*, a directory of German executives published by Hoppenstedt Verlag, various years. This source was supplemented by information from Bloomberg Professional, LexisNexis, ABI/Inform, and from the firms' annual reports.

Control Variables

The financial economic view suggests that the growing internationalization of financial markets places increasing pressure on corporations to conform to Anglo-American governance principles (Useem, 1998; Bradley et al., 1999; Coffee, 1999; Hansmann and Kraakman, 2001). When competing in these financial markets, German companies may therefore come under pressure to conform to a shareholder value orientation. Because reliance on the stock market for financing may thus influence the propensity to espouse a shareholder value orientation, we controlled for it using the firm's debt-to-equity ratio corrected for the share of equity held by outsiders. This measure is superior to an uncorrected ratio, such as total debt divided by common equity, because it only focuses on the amount of equity raised externally (cf. La Porta, Lopez-de-Silanes, and Shleifer, 1997). For example, if one single blockholder held 90 percent of a firm's equity and only 10 percent of equity was dispersed, then using common equity of the whole firm would severely overstate the amount of capital that was raised externally. Our corrected measure of external market capitalization was calculated as a firm's market capitalization multiplied by its fraction of widely held shares. Following La Porta, Lopez-de-Silanes, and Shleifer (1997), we

6
An ordinal measure of ownership is preferable here because it recognizes the importance of control thresholds, but measuring block ownership using a percentage measure led to essentially identical results.

conducted additional analyses using two other variables: the ratio of external market capitalization to sales and the ratio of total debt to sales. The results we present here also hold for these two alternative measures.[7]

The economic view also suggests that greater exposure to international product markets may encourage a firm to move toward a shareholder value orientation (Hansmann and Kraakman, 2001; Höpner, 2001). Competition in these product markets may bring German firms in direct contact with firms adhering to a shareholder value orientation, thereby providing opportunities to learn about and observe alternative governance models. We therefore controlled for exposure to international product markets using the ratio of foreign sales to total sales. This is a commonly used measure of internationalization (Sullivan, 1994; Reeb, Kwok, and Baek, 1998), and though some studies have also used different ratios (such as foreign assets to total assets or foreign taxes to total taxes), Lee and Kwok (1988) showed that these measures are all positively correlated and essentially all measure the extent of international activities.

Espousal of a shareholder value orientation may also be influenced by a firm's exposure to the market for corporate control. Although this market is less developed in Germany than in the U.S. or U.K. (Franks and Mayer, 1998; Jackson and Höpner, 2001), it is still possible that dispersed ownership may be associated with a greater threat of takeovers and pressures to achieve high share prices, thus creating incentives for adopting a shareholder value orientation (Höpner, 2001). We therefore controlled for ownership concentration using the percentage of total shares that are dispersed.

Apart from the influence of capital, product, and corporate control markets, the diffusion of a shareholder value orientation may also depend on factors relating to the embeddedness of the firm in director networks (Davis, 1991; Haunschild, 1993; Palmer, Jennings, and Zhou, 1993; Davis and Greve, 1997; Haunschild and Beckman, 1998). The role of board interlocks as conduits of information has been well documented (e.g., Davis, 1991; Palmer, Jennings, and Zhou, 1993; Davis and Greve, 1997), and contacts with prior adopters may increase the likelihood of adoption by providing information about the practice and removing ambiguity surrounding its value (Burt, 1987; Davis, 1991). We therefore controlled for both one-step and two-step ties to prior adopters, i.e., direct ties and ties through a common third party (Westphal and Zajac, 2001). Because these measures were skewed, we used their natural log plus one (Davis, 1991).

Apart from having ties to prior adopters, the availability of information about a new practice may also be affected by a firm's centrality in the network of board ties. By having connections to a larger number of firms, more centrally located firms tend to learn about innovations more quickly and adopt them at a higher rate (Burt, 1982; Davis, 1991). We therefore controlled for a firm's centrality in a network of interlocking directorates using Freeman's (1979) measure of degree centrality, which indicates the total number of ties a firm has

7
We also examined whether shareholder value orientation adoption was perhaps influenced by a listing of German firms on U.S. exchanges, either as a full listing or in the form of an American depositary receipt (ADR), but only a very small number of the firms in our sample did list in the U.S. during our observation period, and there was no significant relationship.

with others in the sample.[8] All data on board membership were collected from the firms' annual reports and updated annually. Because CEOs and other members of the management board often sit on the supervisory boards of other companies, all members of the management board and supervisory board were included in the analysis.

The presence of institutional investors other than domestic banks may also influence the likelihood of adopting a shareholder value orientation, as ownership by such institutional investors has been linked to the emergence of the shareholder value movement in the U.S. (Useem, 1993, 1998; Hansmann and Kraakman, 2001). We therefore controlled for blockholdings by foreign banks, foreign and domestic insurance firms, and other widely held financial institutions such as investment and pension funds (cf. Gorton and Schmid, 2000).

Union strength may also influence changes in a firm's governance regime. Within the German system of co-determination, unions have traditionally held a strong position vis-à-vis management due to the legal requirement of worker representation on the board of directors and the system of elected worker representatives known as works councils. Furthermore, unions were very vocal in their critique of a shareholder value orientation, which they equated with an "unadulterated capitalism" ("Kapitalismus pur") pursued by corporate "Rambos" (e.g., *Der Spiegel,* 1997).

Unfortunately, data on union membership at the firm level are not available in Germany (Ebbinghaus and Visser, 2000). Instead, we used unionization of works councilors as an indicator of union strength. Unionization of works councilors is likely to be a good indicator of union strength because the firm's elected worker representatives hold comparatively far-reaching rights of information, consultation, and veto. For example, management cannot act on issues of job and bonus rates, overtime, or the introduction of new payment methods without the agreement of the works council (Hübler and Jirjahn, 2003). We measured union strength using the percentage of works council seats captured by union representatives in the firm's corresponding industry. Data on the works council elections held in 1990, 1994, and 1998 come from the Institut der Deutschen Wirtschaft, Cologne.

We controlled for performance using an accounting-based and a market-based measure, namely, *total returns* and *return on assets* (*ROA*) (Westphal and Zajac, 1994). We also controlled for firm size using the log of sales and the log of a firm's year-end market capitalization, and we controlled for diversification using the number of four-digit standard industrial classification (SIC) industries in which a firm operates. To account for industry-specific differences, we included dummy variables for the firms' two-digit SIC codes as reported in the Worldscope database. Data on performance and size were also collected from Worldscope. Finally, we controlled for time effects by including year dummy variables in all analyses. Due to the large number of variables, coefficients for industry and year dummies are not reported in the tables.

8
The use of closely related measures such as Bonacich's (1972) power index had essentially no effect on our results, so we followed Davis and Greve (1997) in using degree centrality as the simpler measure.

Analysis

We estimated the likelihood of a firm espousing a shareholder value orientation in its annual reports using discrete-time event history analysis (Allison, 1984, 1999). All variables were updated annually except for the quadrennial works council elections, resulting in annual spells with time-varying covariates. Adoption was treated as an absorbing event, i.e., companies were removed from the risk set upon adoption. When analyzing panel data in which many events occur at regular, discrete points in time, pooled cross-sectional logistic regression is the preferred method for event history analysis (Yamaguchi, 1991). The logit link estimates a discrete-time proportional odds model directly analogous to a Cox proportional hazard model but is preferable to that model because it can handle tied events and makes no assumption about the exact timing of an event, presuming only that an event occurred within a given interval (Yamaguchi, 1991; Allison, 1995). Because we had data with repeated observations on firms, we estimated robust standard errors using the Huber/White sandwich estimator (White, 1980). This method allowed us to relax the assumption of independence of observations and yields asymptotically consistent estimates even when errors are heteroscedastic, as is often the case in diffusion processes.

We also examined the relationship between espousal of a shareholder value orientation and changes in governance practices for a reduced set of those firms that did espouse a shareholder value orientation.[9] Of course, a firm may adopt one, two, or all of these governance practices. We therefore used two different dependent variables. Our first dependent variable is a binary variable indicating whether a firm adopted any of the three governance practices and was analyzed using a logistic regression model that treats "adopted any governance practice" as an absorbing state. The second dependent variable is an ordinal variable measuring how many practices a firm implemented and was analyzed using a negative binomial regression model that treats "adopted how many structural changes" as a positive count variable.[10] Using these two models allows for the possibility of substitution, i.e., with a firm adopting one structural change in lieu of another. Furthermore, the models thus estimate both the presence and extent of such governance practices. Finally, all independent and control variables were lagged by one year in all models, and industry and year dummies were again included in all analyses.

RESULTS

Descriptive statistics and a correlation matrix for the variables across all periods are presented in table 1, while table 2 shows the results of the event history analyses of shareholder value orientation espousal in annual reports. Model 1 includes only the control variables, while models 2 through 8 add the power and managerial predisposition variables. Model 10 presents the full model with all independent and control variables.

The results indicate support for a model of diffusion that stresses the power and interests of different blockholder

9
We also considered the less likely possibility that firms might implement a governance practice before espousing a shareholder value orientation but found this to be uncommon. No firm implemented a practice related to shareholder value orientation until 1993, three years after the beginning of our observation period. To ensure further the robustness of our results, we conducted separate analyses with governance practice implementation predicting espousal of a shareholder value orientation. These predictors were insignificant, and our other findings were substantially unchanged, suggesting that our approach was appropriate.

10
Count models are appropriate for the analysis of panel data such as ours (Cameron and Trivedi, 1998), and our results are also essentially stable across different estimation methods (e.g., ordered logit or multinomial logit).

Table 1

Descriptive Statistics and Pearson Correlation Coefficients (N = 684)

Variable	Mean	S.D.	1	2	3	4	5	6	7	8
1. SVO espousal	0.09	0.28								
2. German bank ownership level (espousing)	0.01	0.09	0.04							
3. German bank ownership level (non-espousing)	0.47	0.92	0.00	–0.01						
4. German firm ownership (espousing)	0.04	0.30	0.16	–0.01	–0.06					
5. German firm ownership (non-espousing)	0.99	3.24	–0.16	0.00	–0.05	–0.36				
6. German government ownership level (pro-business)	0.08	0.43	0.06	–0.01	–0.06	0.11	–0.03			
7. German government ownership level (pro-labor)	0.08	0.45	–0.04	–0.01	–0.04	0.07	–0.05	–0.03		
8. Family ownership level (3rd or later generation)	0.23	0.81	–0.01	–0.02	–0.15	–0.04	–0.05	–0.05	–0.05	
9. Family ownership level (1st and 2nd generation)	0.35	0.93	0.04	–0.02	–0.11	–0.02	–0.16	–0.07	–0.06	–0.11
10. CEO age	56.64	5.91	–0.04	0.02	0.00	–0.05	0.04	0.00	0.01	–0.08
11. CEO economics or law degree	0.58	0.49	0.12	–0.04	0.14	–0.02	0.04	0.03	–0.05	–0.10
12. Debt/external market capitalization	0.11	0.75	–0.03	0.00	0.40	–0.02	–0.04	0.02	0.00	–0.04
13. Foreign sales/total sales	33.09	27.20	0.14	0.01	–0.11	0.08	–0.20	–0.02	–0.14	0.15
14. Percentage of shares dispersed	40.23	28.97	0.15	–0.01	–0.06	0.01	–0.19	0.02	–0.03	–0.10
15. Ties to prior adopters (one-step)	0.80	0.95	0.29	0.06	0.10	0.15	–0.09	0.04	–0.04	–0.13
16. Ties to prior adopters (two-step)	0.07	1.18	0.08	0.02	0.03	0.01	0.01	0.02	–0.06	–0.10
17. Network centrality	21.23	16.26	0.09	–0.01	0.21	–0.07	–0.05	0.03	–0.08	–0.28
18. Other institutional investor ownership	0.34	0.75	0.10	–0.01	0.06	–0.05	–0.08	0.02	–0.02	–0.11
19. Union strength	73.63	16.31	0.01	–0.04	–0.22	0.06	0.04	–0.09	–0.01	0.16
20. Log of market capitalization	7.43	1.13	0.14	–0.03	–0.02	–0.07	–0.09	0.09	0.02	–0.17
21. lnSales	8.20	1.30	0.15	0.00	0.05	–0.04	–0.17	0.10	0.02	–0.19
22. Return on assets	2.92	4.41	–0.01	–0.12	–0.07	0.05	–0.02	–0.05	–0.05	0.21
23. Total return	7.85	30.92	0.04	–0.08	–0.03	0.03	0.00	0.06	0.01	0.00
24. Diversification	5.69	1.86	0.06	0.03	0.02	–0.01	–0.12	–0.05	–0.04	0.01

Variable	9	10	11	12	13	14	15
10. CEO age	–0.03						
11. CEO economics or law degree	–0.05	–0.10					
12. Debt/external market capitalization	–0.04	–0.05	0.05				
13. Foreign sales/total sales	0.20	–0.11	0.00	–0.14			
14. Percentage of shares dispersed	–0.04	0.00	0.11	–0.14			
15. Ties to prior adopters (one-step)	–0.07	0.00	0.04	0.00	0.10	0.09	
16. Ties to prior adopters (two-step)	0.06	–0.04	0.07	0.03	0.03	–0.02	0.00
17. Network centrality	–0.13	0.18	0.18	0.04	0.15	0.37	0.33
18. Other institutional investor ownership	–0.13	0.05	0.14	–0.03	–0.05	–0.02	0.16
19. Union strength	0.03	–0.10	–0.06	–0.29	0.41	–0.02	–0.01
20. Log of market capitalization	–0.10	0.23	0.04	–0.03	0.09	0.31	0.26
21. lnSales	–0.02	0.09	0.02	–0.02	0.24	0.51	0.20
22. Return on assets	0.09	0.11	0.00	–0.08	0.05	–0.06	–0.06
23. Total return	–0.04	0.02	0.00	0.00	–0.02	–0.04	0.14
24. Diversification	0.10	0.00	0.01	–0.22	0.30	0.30	0.06

Variable	16	17	18	19	20	21	22	23
19. Network centrality	0.07							
20. Other institutional investor ownership	–0.04	0.28						
21. Union strength	0.03	–0.12	–0.46					
22. Log of market capitalization	0.09	0.68	0.22	–0.18				
23. lnSales	0.06	0.62	0.15	–0.10	0.73			
24. Return on assets	–0.08	–0.08	–0.10	0.14	0.06	–0.13		
25. Total return	0.07	0.05	0.04	–0.02	0.21	0.02	0.15	
26. Diversification	0.05	0.24	0.07	0.14	0.26	0.38	0.06	–0.01

groups. H1a predicted that blockholding by German banks that have themselves espoused a shareholder value orientation would increase the likelihood of a firm espousing a shareholder value orientation. Models 2, 6, and 9 all show

Table 2

Discrete-Time Event History Models Predicting Announcement of a Shareholder Value Orientation (N = 684)*

Independent variable	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9
German bank ownership level (espousing)		1.546• (.750)				2.126•• (.725)			2.265•• (.838)
German bank ownership level (non-espousing)		–.318 (.262)				–.115 (.310)			–.219 (.275)
German firm ownership (espousing)			.795• (.458)			1.076•• (.435)			1.058• (.541)
German firm ownership (non-espousing)			–.006 (.037)			.019 (.032)			.007 (.037)
German government ownership level (pro-business)				.698• (.425)		.833•• (.359)			.753• (.443)
German government ownership level (pro-labor)				–.152 (.443)		–.195 (.519)			–.134 (.530)
Family ownership level (3rd or later generation)					.360 (.231)	.413 (.278)			.383 (.334)
Family ownership level (1st and 2nd generation)					.259 (.276)	.290 (.314)			.198 (.312)
CEO economics or law degree							1.827•• (.658)	10.458•• (4.388)	10.483• (4.882)
CEO age							–.014 (.035)	.083 (.066)	.086 (.079)
CEO economics or law degree × CEO age								–.154• (.076)	–.153• (.085)
Debt/external market capitalization	–.281 (.258)	–.094 (.282)	–.276 (.260)	–.386 (.349)	–.221 (.267)	–.259 (.371)	–.453 (.256)	–.445 (.258)	–.325 (.320)
Foreign sales/total sales	.010 (.009)	.010 (.009)	.005 (.010)	.006 (.009)	.007 (.008)	–.005 (.009)	.012 (.010)	.009 (.009)	–.003 (.010)
Percentage of shares dispersed	.015 (.010)	.014 (.010)	.013 (.011)	.017 (.010)	.019 (.012)	.020 (.013)	.009 (.011)	.012 (.011)	.014 (.014)
Ties to prior adopters (one-step)	.468 (.381)	.492 (.399)	.350 (.395)	.383 (.381)	.551 (.416)	.325 (.455)	.152 (.402)	.024 (.469)	–.152 (.531)
Ties to prior adopters (two-step)	.372 (.238)	.353 (.230)	.338 (.250)	.386 (.241)	.381 (.276)	.368 (.297)	.211 (.244)	.201 (.240)	.113 (.301)
Network centrality	–.020 (.025)	–.017 (.025)	–.011 (.027)	–.010 (.026)	–.021 (.025)	.002 (.028)	–.017 (.026)	–.015 (.028)	.007 (.029)
Other institutional investor ownership	.143 (.314)	.107 (.321)	.113 (.333)	.124 (.319)	.322 (.346)	.261 (.410)	.011 (.304)	–.038 (.321)	.048 (.431)
Union strength	.066 (.039)	.070 (.043)	.068 (.040)	.067 (.040)	.065 (.039)	.077 (.042)	.049 (.037)	.054 (.039)	.063 (.043)
Log of market capitalization	.172 (.354)	.162 (.339)	.265 (.382)	.249 (.349)	.137 (.367)	.373 (.387)	.250 (.337)	.232 (.359)	.441 (.406)
Log of sales	.310 (.466)	.315 (.476)	.243 (.475)	.150 (.481)	.359 (.511)	.077 (.554)	.399 (.440)	.431 (.470)	.182 (.620)
Return on assets	.005 (.028)	.010 (.028)	.000 (.030)	.003 (.029)	–.004 (.029)	–.008 (.030)	–.002 (.031)	.003 (.036)	–.004 (.042)
Total return	–.003 (.006)	–.002 (.006)	–.003 (.006)	–.004 (.006)	–.002 (.006)	–.005 (.006)	–.003 (.006)	–.004 (.006)	–.006 (.006)
Diversification	.019 (.180)	.040 (.177)	.033 (.200)	.007 (.188)	.003 (.175)	.019 (.217)	.108 (.193)	.118 (.205)	.140 (.256)
Constant	–15.894••• (4.574)	–16.510••• (4.798)	–16.512••• (4.601)	–15.438••• (4.664)	–15.926••• (4.609)	–17.434••• (4.839)	–17.607••• (5.272)	–24.027••• (7.238)	–25.720••• (7.993)
Chi-square	226.32	233.03	266.68	245.88	257.47	316.08	244.41	260.74	322.83
D.f.	33	35	35	35	35	41	35	36	44

• $p \leq .05$; •• $p \leq .01$; ••• $p \leq .001$. Significance tests are one-tailed for directional hypotheses and two-tailed for control variables.

***** Robust standard errors are in parentheses. All models also control for industry and year (dummy variables).

evidence supporting this hypothesis. Conversely, we find no support for a positive effect of non-espousing German bank ownership, indicating that the exercise of power here depends on the combination of ownership with acceptance of a shareholder value framework. To further assess the identity of these banks, we conducted additional analyses (not

reported here) in which we divided German bank holdings into those controlled by the Big Three (Deutsche Bank, Commerzbank, and Dresdner Bank) and those controlled by all other banks. These analyses showed that the positive effect predicted in H1a is almost entirely driven by the Big Three, pointing to the importance of these biggest German banks in affecting the decision of portfolio firms to themselves announce a change to shareholder-oriented governance. Given that these are the leading banks in Germany, it is not surprising that their espousal of a shareholder value orientation typically preceded espousal by other banks. Thus, although other espousing banks also had shareholdings, the firms in which they had holdings often had already adopted a shareholder value orientation and were thus dropped from the analysis.

H1b predicted that blockholding by domestic non-financial firms that had themselves espoused a shareholder value orientation would likewise have a positive effect on shareholder value orientation adoption. We again find support for this hypothesis, with the same pattern of significance as for banks. As shown in the models, firm ownership is a significant predictor of shareholder value espousal only if the parent firm itself advocated shareholder value management, pointing again to the heterogeneity of interests within this owner category.[11]

Regarding the two groups of non-corporate actors, we find support for hypothesis H1c, which proposed a positive effect for ownership by pro-business federal and state governments. H1d, which predicted that ownership by families beyond the founder's generation would affect adoption of a shareholder value orientation, was not supported. Though the coefficient for family ownership of the third and later generation is in the predicted direction, it is only marginally significant in models 5 and 6 and not significant in the fully specified model 9.

Results for the managerial demographics variables also offer support for a diffusion model that emphasizes the role of key corporate elites and their preferences. H2a, which posited a positive effect of a CEO's educational background in economics and law on shareholder value orientation adoption, was supported, as shown in models 7 through 9. Although the results do not show a significant main effect for CEO age as proposed in H3b, we do observe a significant interaction effect for CEO educational background and age. These findings indicate that being governed by a younger CEO with a background in economics or law makes German firms significantly more likely to espouse a shareholder value orientation.

The results for the control variables show no support for the argument that it is primarily market pressures that move German firms to adopt a shareholder value approach. Neither reliance on the stock market for firm financing nor exposure to international product markets is a significant predictor of shareholder value orientation espousal. There is also little evidence that the market for corporate control or blockholdings by other institutional investors significantly affect the decision

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Regarding the question of whether a firm's shareholder value orientation espousal might influence which institutions elect to own stock in that firm, it appears unlikely that such reciprocal causality should affect our findings. First, equity ownership structures, and particularly large blockholdings, have been remarkably stable in Germany throughout the 1990s (e.g., Kogut and Walker, 2001; Jackson, Höpner, and Kurdelbusch, 2004; Fohlin, 2005). Second, reverse causality is less of a concern because our models are lagged, so ownership in one year predicts espousal in the following year.

of German firms to espouse a shareholder value orientation.[12]

Contrary to previous findings on the role of interorganizational contagion, our results also offer little support for the effect of network ties in facilitating the diffusion of a shareholder-centered governance model. A greater number of one-step or two-step ties to prior adopters did not increase a firm's likelihood of espousing a shareholder value orientation. Similarly, our models show no evidence that a firm's centrality in the corporate interlock network affects its likelihood of espousing a shareholder value orientation. These results indicate that the mere availability of information about a governance model is apparently not sufficient to facilitate its diffusion.

Decoupling of Espousal and Implementation

Figure 3 shows the implementation of governance practices commensurate with a shareholder value orientation. The data indicate that implementation is far from complete, with a significant number of firms apparently decoupling espousal and structural changes by implementing either fewer or none of the three governance practices. Table 3 shows descriptive statistics and correlations for the reduced set of espousing firms, while tables 4 and 5 report results for the logistic and negative binomial regression analyses of governance practice implementation.

Our results indicate partial support for H3a, which posited that shareholdings by espousing corporate owners would predict both adoption and implementation. In both tables, shareholdings by German banks that espouse a shareholder value orientation are a significant predictor of practice implementation across all models. Shareholdings by espousing non-financial firms are only significant in the fully specified

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We conducted supplementary analyses to further assess the role of German insurance firms, and specifically that of Allianz, the largest German insurer, but we did not find an effect for insurance firms.

Figure 3. Shareholder value management espousal and implementation among the 100 largest German firms.

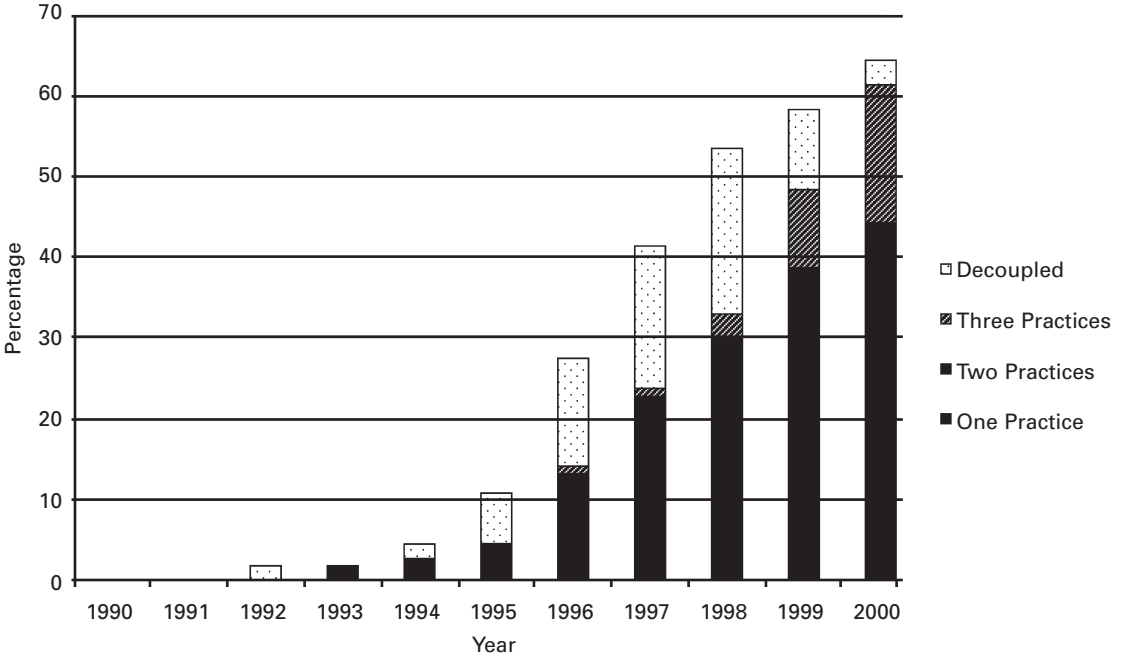

Table 3

Descriptive Statistics and Pearson Correlation Coefficients (N = 249)

Variable	Mean	S.D.	1	2	3	4	5	6	7	8
1. Value-based accounting practices	0.32	0.47								
2. Stock option plans	0.27	0.45	0.32							
3. IAS or US-GAAP accounting standard	0.26	0.44	0.36	0.46						
4. German bank ownership level (espousing)	0.21	0.54	0.07	0.21	0.11					
5. German bank ownership level (non-espousing)	0.22	0.58	–0.05	–0.05	–0.12	0.04				
6. German firm ownership (espousing)	0.22	0.64	–0.06	–0.04	–0.13	–0.08	–0.11			
7. German firm ownership (non-espousing)	0.51	1.00	–0.27	–0.16	–0.17	–0.14	–0.02	0.12		
8. German government ownership level (pro-business)	0.14	0.56	–0.16	–0.09	–0.12	0.02	0.10	0.06	–0.01	
9. German government ownership level (pro-labor)	0.03	0.18	–0.03	0.04	–0.11	–0.03	0.09	–0.06	–0.09	–0.05
10. Family ownership level (3rd or later generation)	0.41	0.96	0.02	–0.10	0.04	–0.04	–0.10	–0.08	–0.16	–0.11
11. Family ownership level (1st and 2nd generation)	0.27	0.81	–0.14	0.02	–0.06	–0.13	–0.13	–0.11	–0.14	–0.09
12. CEO economics or law degree	0.63	0.48	0.30	0.05	0.20	–0.09	0.00	–0.04	0.06	0.08
13. CEO age	56.71	5.87	0.14	0.10	0.20	–0.03	–0.08	–0.14	–0.03	–0.03
14. Debt/external market capitalization	0.06	0.25	–0.11	–0.08	0.04	–0.04	0.07	–0.04	–0.08	0.38
15. Foreign sales/total sales	44.88	26.10	0.21	0.24	0.11	0.09	–0.13	–0.09	–0.22	–0.30
16. Percentage of shares dispersed	55.99	26.09	0.37	0.22	0.18	–0.08	–0.17	–0.24	–0.44	–0.17
17. Ties to prior adopters (one-step)	1.97	1.10	0.43	0.41	0.42	0.22	0.05	0.08	–0.19	0.03
18. Ties to prior adopters (two-step)	5.03	1.67	–0.22	–0.26	–0.29	–0.13	–0.01	–0.05	0.27	0.00
19. Network centrality	24.36	18.66	0.42	0.14	0.23	0.13	0.05	–0.09	–0.19	0.03
20. Other institutional investor ownership	0.62	0.82	0.11	0.07	0.23	0.15	0.02	–0.20	–0.28	–0.05
21. Union strength	70.86	19.90	0.14	0.05	–0.09	–0.17	–0.09	0.06	0.14	–0.21
22. Log of market capitalization	8.21	1.63	0.44	0.31	0.41	0.04	–0.13	–0.16	–0.29	0.07
23. lnSales	8.89	1.28	0.49	0.27	0.34	0.08	–0.04	–0.23	–0.26	0.06
24. Return on assets	3.88	4.19	0.00	0.12	0.11	–0.16	–0.22	–0.02	–0.01	–0.13
25. Total return	18.23	37.12	0.06	0.09	–0.02	–0.04	–0.07	–0.09	–0.06	–0.02
26. Diversification	5.96	2.05	0.21	0.09	0.16	0.15	0.03	0.10	0.04	–0.07

Variable	9	10	11	12	13	14	15
10. Family ownership level (3rd or later generation)	–0.08						
11. Family ownership level (1st and 2nd generation)	–0.06	–0.14					
12. CEO economics or law degree	–0.05	–0.13	–0.21				
13. CEO age	0.01	–0.03	–0.24	0.13			
14. Debt/external market capitalization	0.01	–0.08	–0.06	0.01	0.12		
15. Foreign sales/total sales	–0.07	0.31	0.16	–0.13	–0.19	–0.20	
16. Percentage of shares dispersed	0.10	–0.22	–0.13	0.08	0.08	–0.18	0.25
17. Ties to prior adopters (one-step)	0.16	–0.25	–0.34	0.22	0.22	0.03	0.04
18. Ties to prior adopters (two-step)	–0.10	0.10	0.03	0.05	–0.02	–0.07	–0.04
19. Network centrality	0.07	–0.27	–0.36	0.25	0.16	–0.07	–0.08
20. Other institutional investor ownership	–0.06	–0.09	–0.20	0.20	0.27	0.27	–0.14
21. Union strength	0.02	0.14	0.20	0.01	–0.30	–0.36	0.48
22. Log of market capitalization	0.08	–0.18	–0.16	0.23	0.39	0.00	0.00
23. lnSales	0.15	–0.14	–0.33	0.24	0.27	–0.01	–0.06
24. Return on assets	–0.07	0.11	0.52	–0.12	–0.01	–0.18	0.34
25. Total return	0.01	–0.08	0.16	–0.01	0.03	–0.05	0.06
26. Diversification	–0.02	–0.22	–0.02	0.10	0.09	–0.11	0.03

Variable	16	17	18	19	20	21	22	23	24	25
17. Ties to prior adopters (one-step)	0.35									
18. Ties to prior adopters (two-step)	–0.21	–0.54								
19. Network centrality	0.46	0.60	–0.25							
20. Other institutional investor ownership	–0.07	0.23	–0.13	0.18						
21. Union strength	0.11	–0.12	0.12	–0.15	–0.59					
22. Log of market capitalization	0.42	0.53	–0.20	0.65	0.28	–0.24				
23. lnSales	0.48	0.53	–0.23	0.75	0.28	–0.20	0.84			
24. Return on assets	–0.05	–0.21	0.09	–0.24	–0.25	0.43	0.13	–0.13		
25. Total return	0.10	0.06	0.00	0.05	0.05	0.00	0.35	0.15	0.28	
26. Diversification	0.06	0.31	–0.13	0.27	0.05	0.12	0.16	0.19	0.01	–0.01

Table 4

Logistic Regression Models Predicting Implementation of Any Governance Practice (N = 170)*

Independent variable	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9
German bank ownership level (espousing)		1.180• (.578)				1.503• (.718)			2.274• (1.323)
German bank ownership level (non-espousing)		.057 (.360)				.278 (.469)			.567 (.780)
German firm ownership (espousing)			.148 (.424)			.064 (.543)			.455 (.517)
German firm ownership (non-espousing)			–.392 (.324)			–.593 (.477)			–.515 (.421)
German government ownership level (pro-business)				–1.641 (1.144)		–2.833• (1.347)			–2.593 (1.492)
German government ownership level (pro-labor)				–1.287 (1.264)		–2.018 (1.306)			–1.587 (1.498)
Family ownership level (3rd or later generation)					.166 (.298)	.222 (.430)			.738 (.626
Family ownership level (1st and 2nd generation)					–.738 (.882)	–.889 (.908)			–1.763• (.816)
CEO economics or law degree							1.695• (.813)	4.822••• (1.340)	7.797•• (3.076)
CEO age							.092 (.055)	.124 (.066)	.206 (.107)
CEO economics or law degree × CEO age								–.069•• (.025)	–.111• (.054)
Debt/external market capitalization	–14.969 (10.244)	–17.441 (9.548)	–16.315 (10.674)	–8.817 (11.843)	–11.831 (10.680)	–4.477 (12.489)	–26.427 (14.034)	–24.703 (12.780)	–14.440 (13.440)
Foreign sales/total sales	.021 (.014)	.017 (.016)	.019 (.015)	.025 (.016)	.021 (.013)	.016 (.017)	.040• (.017)	.037• (.017)	.032 (.020)
Percentage of shares dispersed	.003 (.016)	.005 (.017)	–.004 (.018)	.001 (.017)	.006 (.016)	–.007 (.025)	.005 (.015)	–.001 (.017)	.006 (.022)
Ties to prior adopters (one-step)	.268 (.604)	.293 (.584)	.264 (.645)	.500 (.665)	–.152 (.724)	.301 (.742)	–.284 (.655)	–.075 (.757)	–.043 (.951)
Ties to prior adopters (two-step)	.352 (.369)	.314 (.398)	.430 (.385)	.294 (.358)	.169 (.405)	.120 (.459)	.334 (.366)	.449 (.409)	.279 (.592)
Network centrality	–.021 (.033)	–.021 (.033)	–.018 (.033)	–.031 (.036)	–.013 (.034)	–.028 (.038)	–.013 (.035)	–.026 (.037)	–.042 (.046)
Other institutional investor ownership	.742 (.539)	.984 (.622)	.632 (.565)	.443 (.563)	.871 (.537)	.444 (.679)	.486 (.528)	.612 (.541)	.659 (.644)
Union strength	.057 (.061)	.079 (.065)	.062 (.058)	.056 (.067)	.063 (.055)	.095 (.065)	.029 (.071)	.034 (.067)	.083 (.086)
Log of market capitalization	.908 (.663)	.795 (.722)	.921 (.662)	.727 (.648)	1.065 (.762)	.736 (.804)	.776 (.634)	1.088 (.666)	1.347 (.841)
Log of sales	.797 (.553)	.873 (.650)	.805 (.567)	1.046 (.594)	.622 (.541)	1.102 (.869)	1.114• (.568)	1.031 (.586)	1.133 (.840)
Return on assets	–.046 (.093)	–.008 (.106)	–.057 (.092)	–.010 (.091)	–.005 (.095)	.107 (.106)	–.051 (.086)	–.115 (.098)	.116 (.146)
Total return	–.005 (.009)	–.005 (.008)	–.005 (.009)	–.004 (.009)	–.004 (.009)	–.002 (.009)	–.008 (.010)	–.004 (.012)	.001 (.010)
Diversification	.072 (.143)	.015 (.170)	.089 (.156)	.157 (.154)	.099 (.157)	.233 (.199)	.068 (.133)	–.009 (.159)	.123 (.249)
Constant	–21.369••• (5.713)	–22.502••• (5.823)••	–21.625••• (5.693)••	–23.049••• (6.601)••	–21.715••• (5.596)••	–26.468••• (7.928)••	–28.341••• (8.445)••	–30.544••• (8.863)••	–44.885•• (17.111)••
Chi-square	84.93	101.82	96.60	96.07	91.11	150.60	104.27	104.66	284.71
D.f.	27	29	29	29	29	35	29	30	38

• $p \leq .05$; •• $p \leq .01$; ••• $p \leq .001$. Significance tests are one-tailed for directional hypotheses and two-tailed for control variables.

***** Robust standard errors are in parentheses. All models also control for industry and year (dummy variables).

model of table 5, however, indicating that such shareholdings only predict the extent of practice implementation. Shareholdings by the two non-corporate ownership groups are not significant predictors of practice implementation, a finding that corresponds to our assumption that such owners would have either less incentive or less ability to ensure implemen-

Table 5

Negative Binomial Regressions Models Predicting Number of Implemented Governance Practices (N = 248)*

Independent variable	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9
German bank ownership level (espousing)		.288• (.126)				.383•• (.144)			.465•• (.157)
German bank ownership level (non-espousing)		.049 (.148)				.214 (.171)			.209 (.169)
German firm ownership (espousing)			.081 (.140)			.270 (.201)			.352• (.193)
German firm ownership (non-espousing)			–.235 (.132)			–.077 (.172)			–.133 (.179)
German government ownership level (pro-business)				–.580 (.423)		–.668 (.417)			–.664 (.387)
German government ownership level (pro-labor)				–.957 (.847)		–.827 (.764)			–.599 (.723)
Family ownership level (3rd or later generation)					.147 (.110)	.182 (.130)			.155 (.136)
Family ownership level (1st and 2nd generation)					.197 (.200)	.268 (.229)			.281 (.201)
CEO economics or law degree							.463•• (.199)	.560• (.283)	1.013•• (.365)
CEO age							.030 (.020)	.030 (.020)	.030 (.018)
CEO economics or law degree × CEO age								–.002 (.006)	–.010• (.006)
Debt/external market capitalization	–.308 (.327)	–.296 (.341)	–.389 (.358)	–.080 (.243)	–.284 (.310)	–.017 (.208)	–.416 (.284)	–.404 (.293)	–.115 (.223)
Foreign sales/total sales	.009• (.005)	.007 (.005)	.008 (.004)	.007 (.005)	.007 (.005)	.002 (.005)	.012• (.005)	.012• (.005)	.004 (.005)
Percentage of shares dispersed	–.003 (.006)	–.001 (.006)	–.006 (.006)	–.004 (.005)	–.001 (.006)	.001 (.007)	–.004 (.006)	–.005 (.006)	–.001 (.007)
Ties to prior adopters (one-step)	.331 (.219)	.234 (.229)	.381 (.219)	.416 (.230)	.466 (.242)	.411 (.238)	.169 (.247)	.173 (.250)	.233 (.289)
Ties to prior adopters (two-step)	.210 (.207)	.218 (.207)	.248 (.211)	.224 (.208)	.240 (.205)	.266 (.212)	.155 (.190)	.154 (.188)	.208 (.188)
Network centrality	.007 (.010)	.009 (.010)	.007 (.010)	.003 (.010)	.005 (.010)	.003 (.010)	.015 (.011)	.015 (.012)	.011 (.012)
Other institutional investor ownership	.141 (.185)	.177 (.206)	.117 (.180)	.017 (.169)	.213 (.160)	.170 (.213)	.133 (.160)	.127 (.164)	.151 (.214)
Union strength	.014 (.015)	.017 (.013)	.014 (.014)	.016 (.015)	.016 (.015)	.020 (.013)	.009 (.015)	.009 (.016)	.014 (.013)
Log of market capitalization	.199 (.134)	.200 (.134)	.181 (.138)	.166 (.129)	.172 (.143)	.146 (.138)	.162 (.127)	.167 (.123)	.106 (.125)
Log of sales	.157 (.152)	.191 (.159)	.177 (.151)	.229 (.144)	.171 (.149)	.304• (.149)	.160 (.140)	.163 (.144)	.361• (.149)
Return on assets	.022 (.028)	.024 (.027)	.021 (.028)	.026 (.029)	.014 (.031)	.021 (.030)	.034 (.027)	.033 (.026)	.031 (.027)
Total return	–.002 (.002)	–.001 (.002)	–.001 (.002)	–.002 (.002)	–.002 (.002)	–.001 (.002)	–.001 (.002)	–.001 (.002)	–.000 (.001)
Diversification	.013 (.056)	.001 (.057)	.008 (.057)	.012 (.049)	.014 (.054)	–.001 (.047)	.006 (.048)	.004 (.050)	–.025 (.044)
Constant	–6.906••• (1.367)	–7.432 (1.316)••	–6.568 (1.390)••	–7.137 (1.368)••	–7.008 (1.356)••	–8.326 (1.451)••	–8.337 (2.081)••	–8.377 (2.058)••	–9.877 (2.091)••
Chi-square	319.22	406.55	355.51	267.85	331.38	561.00	360.80	364.31	1013.99
D.f.	27	29	29	29	29	35	29	30	38

• $p \leq .05$; •• $p \leq .01$; ••• $p \leq .001$. Significance tests are one-tailed for directional hypotheses and two-tailed for control variables.

***** Robust standard errors are in parentheses. All models also control for industry and year (dummy variables).

tation. In fact, we do observe a negative, significant coefficient for first- and second-generation family ownership in the fully specified model of table 4, indicating that the presence of such family owners tends to significantly limit the extent of practice implementation, a finding that is consistent with our predicted negative stance of such owners toward a shareholder value orientation.

The results also support the assumption that managerial predispositions predict both espousal and implementation (H3b). Having a CEO with a background in economics or law increases both the likelihood and the extent of implementing governance practices consistent with a shareholder value approach. Although we find no independent main effect for CEO age, the models for both the presence and the extent of practice implementation again show a significant interaction between age and having a degree in economics or law. These findings suggest that a positive predisposition of top executives increases the likelihood that espousal of a shareholder-centered governance model will in fact be accompanied by commensurate changes in governance practices.

DISCUSSION

How and why do governance models diffuse into new institutional contexts in which alternative interpretations and contestation are not only possible but are very likely? Our study has sought to address this issue theoretically and empirically in the context of the spread of a shareholder value orientation in contemporary Germany. While prior research on the diffusion of shareholder value management has primarily focused on economic processes, we offered an alternative approach that highlighted how identifiable political and sociocultural elements can affect the diffusion process. Our findings showed that a greater understanding of the specific path of shareholder value orientation diffusion in Germany can be achieved through the use of a sociopolitical framework that considers the varied interests and power of owners as well as the predisposition of powerful senior executives. Even when controlling for economic pressures or social networks effects, we found that the adoption and implementation of such models critically depend on the constellations of power and interests in potential adopters and that these interests also changed over time. Our findings extend prior work that has emphasized the role of sociopolitical factors in affecting the diffusion of practices (e.g., Palmer et al., 1987; Espeland and Hirsch, 1990; Palmer, Jennings, and Zhou, 1993), suggesting that an approach that combines such sociopolitical factors with other elements offers a more detailed, more complete, and ultimately more correct picture of the spread of corporate governance models. Though a focus on impersonal forces such as market pressures has contributed to our understanding of practice diffusion, our study highlights that the shift from one governance model to another may ultimately depend on the interests and power of actors that make decisions in organizations (cf. Fligstein, 2001; Guillén, 2001). These arguments recognize that organizations are also political arenas in which different actors are engaged in contests over the goals and rules of governance of the corporation, pointing to the importance of coercive rather than merely mimetic processes (cf. Mizruchi and Fein, 1999).

Our study also contributes to a contingency theory of ownership (Kang and Sørensen, 1998) by showing that the influence of owners may vary both across ownership categories and also within such categories. Financial economists generally assume homogeneity of shareholder interests and limit their analyses to the effects of ownership concentration, but

results of the considerable empirical research on the effects of ownership concentration have been inconclusive (Demsetz and Lehn, 1985; Kang and Sørensen, 1998). Our theoretical perspective on diffusion as well as our empirical results provide further evidence that ownership concentration may not sufficiently capture the constellations of diverging interests among and within ownership categories. By teasing apart ownership effects in our data, we found considerable support for owner interests that are context dependent and change over time. These findings contribute to the literature on the diffusion of practices as well as the growing literature that examines sociocultural and behavioral factors in corporate governance relations (e.g., Bühner et al., 1998; Ahmadjian and Robinson, 2001; Westphal and Zajac, 2001; Davis and Useem, 2002; Zajac and Westphal, 2004).

Our findings have a number of specific implications. First, we documented the important and evolving role played by domestic banks in the diffusion of a shareholder value orientation in German companies. Given the central role of domestic banks in the German system of corporate finance, this shift could have important consequences. Specifically, in their role as the providers of "patient capital" that do not demand immediate market returns, German universal banks have historically been characterized as more efficient than Anglo-American banks (e.g., Francke and Hudson, 1984). The close ties between German banks and firms have been viewed as allowing the banks to overcome information asymmetries, resulting in an efficient system of monitoring and replacing firm managers. In support of this view, Gorton and Schmid (2000) found that during the 1970s and 1980s, a German firm's performance improved to the extent that domestic banks held equity in the firm and were able to influence firm strategy. But the monitoring role of German banks is to some extent predicated on their adherence to the traditional model of "patient capital." If German banks no longer follow this model but instead become active proponents of a shareholder value orientation among those firms in which they have investments, this could plausibly reduce their ability to establish and maintain the close ties and trust relationships that have traditionally defined German corporate finance. If this happens, the former system of monitoring may have to be replaced with another governance system in which the stock market plays a more central role, such as the threat of takeovers in a market for corporate control.

In this study, we have focused on the antecedents of adoption and implementation of a shareholder-oriented governance model. Future research could extend this focus by examining the consequences of an emerging governance regime for different stakeholder groups. For example, does the adoption of a shareholder value orientation in Germany really lead to greater returns for stockholders (Fiss and Zajac, 2005)? If so, are these greater returns achieved primarily at the expense of other stakeholder groups, such as debt holders and employees, or does this change in governance lead to increased corporate performance, resulting in greater benefits for all corporate stakeholders? Answers to these questions would provide valuable insights into the current debate

over the merits of different governance systems (e.g., Branson, 2001; Hall and Soskice, 2001; Hansmann and Kraakman, 2001).

In terms of the broader implications, our study offers important insights for the current debate on the convergence of national governance models and systems. Within this debate, arguments about the diffusion of a shareholder value model have remained largely untested empirically. As a result, scholars have called for more attention to the processes by which convergence may occur (e.g., Branson, 2001; Khanna, Kogan, and Palepu, 2002). Our study provides evidence on one of those processes by examining in depth how context affects the diffusion of a shareholder-oriented governance model. Such a grounded understanding of diffusion processes provides a better foundation for studying convergence processes at a more aggregate level. While financial economists and legal scholars have suggested growing convergence mainly due to market forces, our study suggests that other factors may be at least as important in explaining the diffusion of governance models across national borders. In light of our findings, the convergence in governance models or its absence can be conceptualized as a process of belief conversion working through two mechanisms. The first mechanism is ownership power, in which firms that have adopted a different governance regime in turn advocate and demand a move toward this model through their holdings in other firms, leading to diffusion along the lines of ownership and power relationships rather than along board ties or exposure to homogenous market forces. Such arguments highlight the importance of local orders in which diffusing ideas are filtered through local political and power constellations (cf. Vitols, 2002). The second mechanism emphasizes how the preferences of powerful individual senior managers, as reflected in their background characteristics, drive firms to pursue strategic change. Future research could begin to examine in greater detail how broader shifting institutional logics regarding the appropriate conceptualization of the public corporation (Zajac and Westphal, 2004) activate these mechanisms, for example, through new political discourse, changing media coverage, or revised textbook discussions in business schools.

Our research also carries implications for the question of whether we will be witnessing convergence, persistence of national differences, or perhaps some intermediate form of adjustment in national governance systems. German firms are increasingly adopting characteristics of the Anglo-Saxon governance system, but a sizable number of them apparently resist this trend. Other political characteristics of the German corporate governance system, such as the system of co-determination, appear to be firmly entrenched, with few signs of weakening. Furthermore, the recent series of corporate scandals in the United States has not helped the spread of the Anglo-Saxon governance model, but rather, these problems have provided ammunition to those opposing a move toward a more shareholder-oriented regime in Germany (*Chicago Tribune,* 2002). When diffusion occurs over contested terrain, a backlash may also be more likely to occur, sug-

gesting the distinct possibility of a shareholder value backlash among German firms in the future. We believe our theoretical perspective on diffusion, with its emphasis on sociopolitical factors, would also be well-suited to understanding when and why such a backlash would occur.

Our research examines an ongoing process whose outcome is still not fully known, and conclusions about the ultimate extent of convergence on a shareholder-centered governance model in Germany have to remain preliminary. Nevertheless, our findings also point to an active process of symbolic management in convergence, in which surface compliance is substituted for deep compliance (Zajac and Westphal, 2004). The picture that emerges is one of a mixture of "shallow" and "deep" convergence and intracountry variation rather than a binary convergence/non-convergence distinction measured at the country level. The significant non-adoption of a shareholder value orientation among German firms redirects our attention to questions of implementation and enforcement, and future research may further investigate whether over the longer term, powerful owners or other stakeholders will force firms to match appearance and actions or whether firms' growing sophistication with the use of normatively appropriate language and appearance will suffice in appeasing stakeholder groups.

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