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Corporate governance change and performance: The roles of traditional mechanisms in France and South Korea ☆

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Summary Agency and symbolic management perspectives describe that the consolidation of shareholder-oriented mechanisms improves corporate performance, although they are not fully implemented. Nevertheless, firms in non-US countries still maintain their traditional governance mechanisms, such as the presence of controlling shareholders, government's influence or family's involvement in management. Using large corporations in France and South Korea, we examine the roles of such traditional mechanisms for corporate performance. Our analytic framework, which compares the effects of the above three traditional and shareholder-oriented mechanisms on firm performance, highlights the positive influence of the traditional mechanisms, with the exception of state ownership, on ROA or Tobin's q. The empirical findings imply that the continuation of traditional mechanisms could be partly attributable to their performance contribution. We therefore suggest that corporations should delineate the practical contributions of various mechanisms to performance, being balanced in adopting or constraining a specific mechanism in corporate governance change.

Introduction

The agency theory upholds shareholder value orientation and suggests the consolidation of monitoring mechanisms in order to correct inappropriate behaviors of managers and consequently, to improve corporate performance (Cuervo-Cazurra & Dau, 2009; Schulze, Lubatkin, Dino, & Buchholtz, 2001; Sundaram & Inkpen, 2004). Contrary to the theoretical prescription, however, shareholder-oriented mechanisms are not fully implemented, but practically coexist with traditional governance mechanisms, such as controlling shareholders' concentrated ownership, government's influence or family's involvement in management, in non-US countries. The symbolic management perspective explains this phenomenon as decoupling, which is facilitated by the contestation between the performance dimension of shareholder-oriented mechanisms and sociopolitical responses of traditional mechanisms in a firm (Fiss & Zajac, 2004; Westphal & Zajac, 1998, 2001). The two theoretical approaches

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help us to understand what we expect by consolidating monitoring mechanisms as well as what we practically observe in a corporate governance change.

However, the agency and symbolic management approaches paid little attention to the possibility that economic values added by the traditional mechanisms of a society could contribute to their continuation. It is also the case with other work sharing the banner of the institutional theory. Most, if not all, institution-based perspectives do not delve into the performance dimension of traditional mechanisms, although they explain the idiosyncratic governance systems across countries by utilizing the institutional arrangements of a society (e.g., Aguilera & Jackson, 2003; Lubatkin, Lane, Collin, & Very, 2005; Rocha & Granerud, 2011). A stream of literature centering on the concept of travels of ideas also emphasizes the adopter's translation rather than the functional dimension in an organizational change (Czarniawska & Joerges, 1996; Czarniawska & Sevón, 2005). Based on the idea that the survival of traditional mechanisms may not be entirely attributable to power struggles, particularly under the pressure of globalized capital markets, this paper examines as to whether traditional governance mechanisms of a society have positive effects on corporate performance, such as ROA and Tobin's q, even after controlling for shareholder-oriented mechanisms, such as independent directors and foreign ownership.

This study proposes that traditional mechanisms could assume something, i.e., economic values added, other than sociopolitical power struggles in a corporate governance change, even under globalization, where free flow of capital promotes competition among corporations across countries and advocates shareholder value maximization. This position is in contrast to the agency theory, which argues that traditional mechanisms, such as controlling shareholders' ownership concentration, are inefficient in resource allocation and consequently, aggravate corporate performance (Bae, Kang, & Kim, 2002; La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 2000). Furthermore, the performance contribution of traditional mechanisms will shed light on a new dimension of symbolic management. Their coexistence with shareholder-oriented mechanisms in corporate governance is not only an outcome of the sociopolitical power struggle, but also a result of their positive functions in corporate performance. It is also suggested that the institution-based perspective should link institutional arrangements to corporate performance as well as examine the potentially positive relations in terms of a society's characteristic mechanisms (Jackson & Deeg, 2008). In this sense, the two case studies presented in this paper, that is, France and South Korea, will illustrate that some of their prominent mechanisms, such as ownership concentration, the state's influence and family control, are positively related to corporate performance despite the indispensable restructuring process under globalization.

For an empirical analysis, this paper utilizes the panel data on more than 100 large firms in France and South Korea with the time windows of ten (1998—2007 for the French sample) and eight years (2002—2009 for the South Korean sample). Since the mid-1990s, corporations in the two economies have been pressed to transform their governance systems and substantially adopted shareholder-oriented mechanisms. As a result, foreign investors have increased their voice in the firms, and independent (outside) directors have taken majority on the board of directors. To appeal for investors in capital markets, firms have increased dividends as well. However, given that ownership concentration is still very high and family control maintains its influence in the two economies, companies in the two countries are well suited to study the sustained traditional governance mechanisms in firms along with their contribution to corporate performance. Moreover, the comparison of the common factors between the two economies will highlight that France and South Korea, characterized as a third type of capitalism (Schmidt, 2003), are sustained distinct from the laissez-faire business relations in the UK and the USA or from the coordinated economic activities in Germany and Japan (Hall & Soskice, 2001; Orrù, 1997; Yoo & Lee, 2009). Regarding the analytical method, we use fixed-effects panel estimations for the major empirical analysis. We also employ a two-stage regression analysis, owing to the concern over the endogeneity issue regarding the causal relationship between governance mechanisms and corporate performance.

This paper is organized as follows. After the introduction, we review the literature of corporate governance change and construct three hypotheses. We suggest an alternative perspective, which sheds light on the functional dimension of the two countries' traditional governance mechanisms. In the following sections, we explain the method, data and results. Finally, we discuss both theoretical and practical implications for corporate governance change and strategic management with concluding remarks. Overall, we suggest that corporations should delineate the practical contributions of various mechanisms to performance, being balanced in adopting or constraining a specific mechanism in corporate governance change.

Shareholder orientation and decoupling

The perspectives of agency theory and symbolic management have examined corporate governance change in terms of efficiency and sociopolitics, respectively. Studies based on the agency theory argue that corporate misbehaviors, which have led the financial scandals in the 2000s, are an outcome of inappropriate governance mechanisms (De Jong & Elfring, 2010; Gedajlovic, Lubatkin, & Schulze, 2004; Westphal, Gulati, & Shortell, 1997). Concentrated ownership structure mitigates the effectiveness of external monitoring and paves a way for controlling shareholders to abuse their power at the expense of minority shareholders' interests. Many firms with concentrated ownership structure in non-US countries are often criticized by agency theorists for expropriation or tunneling, including the inappropriate transfer of wealth to controlling shareholders from minority shareholders (Bae et al., 2002; Johnson, La Porta, Lopez-de-Silanes, & Shleifer, 2000; La Porta et al., 2000). To prevent the inefficient resource management, the agency theory suggests the consolidation of monitoring or incentives mechanisms both internally and externally. Outside directors on the boards and investors in capital markets are representative mechanisms. While outside directors are expected to make decisions independent of executive managers (Core, Holthausen, & Larcker, 1999), institutional investors have power and/or incentives to make their voices heard over important corporate decisions or to vote with their feet.

However, the announcement of shareholder value orientation is one thing, whereas its practical implementation is