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Weimer, J.; Pape, Joost C.

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From a cross-national perspective of corporate governance, in this paper the question is answered to what extent the corporate financial goals of Dutch, US, and German firms differ. In the first part of the paper an overview is presented of a number of characteristics of systems of corporate governance within four groups of countries. Afterwards it is argued that of three branches of theories of economic organization the behavioral theory of the firm is the most appropriate to answer the research question. The behavioral view on corporate governance in a cross-national setting is then condensed in a descriptive model. Most distinctively, in this model disciplinary mechanisms are seen to be a source of bargaining power at the country level of analysis. The model is then specified and prolonged for corporate financial goals and financial participants (shareholders, suppliers of interest-bearing debt, and top management). The bargaining power of participants is operationalized mainly as the importance attached by top management to the attainment of corporate financial goals that fit the specific descriptive model.

In the second part of the paper the research question is answered based on empirical findings. The choice to conduct the inquiry in the Netherlands, the US, and Germany stems from the differences between characteristics of the systems of corporate governance prevailing in these countries, in particular disciplinary mechanisms. The statistical analysis of 220 questionnaires and 29 interviews with managers from the three countries lead into the conclusion that there are resemblances and differences between corporate financial goals, and that the German firms distinguish themselves the most. To a higher or lesser extent, the differences found can be related to characteristics of the respective systems of corporate governance. The US firms distinguish themselves by the creation of shareholder value as the paramount financial goal and a significantly higher score on the goal of maximizing the after-tax return to shareholders. The pursuit of liquidity-related paramount financial goals is characteristic of German firms, and they score significantly higher on the goals of maximizing corporate purchasing power and restricting the direct influence of external suppliers of capital. The Dutch firms are typified by an emphasis on book value-based, profit(ability)-related paramount financial goals, and do not score significantly higher on corporate financial goals in which the goals of one participant are reflected.
1. Introduction

From a cross-national perspective of corporate governance, in this paper the question is answered to what extent the corporate financial goals of Dutch, US, and German firms differ. In section 2 an overview is presented of a number of characteristics of systems of corporate governance within four groups of countries. In section 3 the attention shifts to theories of economic organization based on which issues of corporate governance can be researched. Subsequently, one of these is chosen to serve as a frame of reference to answer the research question. By means of an elaboration and an extension of the theory chosen, in section 4 a descriptive model is displayed of corporate governance in a cross-national setting. In section 5 the model is specified and prolonged. The research plan for the empirical inquiry built upon this model is the subject of section 6. In section 7 a part of the empirical findings of the inquiry are explicated. The paper is concluded in section 8.

2. An overview of some characteristics of systems of corporate governance

Over the past years, corporate governance has been becoming an issue of great importance for a diverse public, including investors, managers, politicians, consultants, and academics all over the industrialized world. In the US, Calpers president John Christ has put corporate governance high on the industrial agenda. Porter (1992) and others criticize American capital markets for myopia and under investment in ‘soft’ resources like research and development and education. In the UK, the effort of institutional investors and public authorities to make managers more responsible to the rights and wishes of investors is materialized in the Cadbury Report (1992). In continental Europe, an intense debate takes place on the pros and cons of national systems of corporate governance, partly instigated by the conclusion from the Booz-Allen Report (1989) that European industry is inefficiently structured because of capital market barriers, and that these barriers need to be disassembled in favor of Anglo-Saxon-like markets.

As part of the international dimension of the corporate governance debate, several publications have appeared comparing systems of corporate governance in a cross-national setting (e.g. Baum et al., 1994; Charkham, 1994; Moerland, 1995; Prowse, 1995). De Jong (1989) and Moerland (1995) propose four groups of countries to which more or less resembling systems can be assigned: Anglo-Saxon countries, Germanic countries, Latin countries, and Japan, the latter of
which is considered an isolate. Based on these and a large number of other sources containing both qualitative and quantitative data, in Weimer (1995, p.8-30) six characteristics are identified of systems of corporate governance within the aforementioned groups of countries: the prevailing concept of the firm, the board system, the most salient constituencies able to exert influence on corporate decision-making, the development of stock markets (operationalized as the market capitalization of domestic firms as a percentage of GNP year-end 1993), the presence or absence of an external market for corporate control, and the ownership concentration.

In table I on the next page these characteristics are qualified for the distinguished country groups. The table clarifies that the distinction is not completely unequivocal, but it is regarded useful for comparative purposes. National systems within a group may show certain differences (for instance, ownership in non-financial firms by banks is unrestricted in Germany and limited to 5% in the Netherlands) and countries attributed to different groups may show certain similarities (for instance, banks are a salient constituency in both Germany and Japan). At the same time and at a relatively high level of abstraction, the greatest difference is between the system of corporate governance in the Anglo-Saxon countries on the one hand and the systems prevailing in the other three groups altogether on the other. Moerland (1995) calls the system in the Anglo-Saxon countries 'market-oriented' and the other systems 'network-oriented'. Limited to the US, Germany, and Japan, Kaplan (1995) uses the terms 'short-term shareholder-oriented' and 'relationship-oriented', respectively.
<table>
<thead>
<tr>
<th>Country class</th>
<th>Anglo-Saxon</th>
<th>Germanic</th>
<th>Latin</th>
<th>Japan</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Countries (GNP * US$ 1 bin; GNP per capita year-end 1994)</strong></td>
<td>USA (7,200; 27,400)</td>
<td>Germany (3,370; 26,000)</td>
<td>France (1,360; 23,550)</td>
<td>Japan (4,710; 37,580)</td>
</tr>
<tr>
<td></td>
<td>UK (1,100; 18,950)</td>
<td>the Netherlands (327; 21,300)</td>
<td>Italy (1,050; 18,400)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Canada (594; 20,800)</td>
<td>Switzerland (257; 36,430)</td>
<td>Spain (490; 12,500)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Australia (327; 18,100)</td>
<td>Sweden (206; 23,270)</td>
<td>Belgium (231; 22,600)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Austria (200; 25,010)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Denmark (152; 29,190)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Norway (116; 26,590)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Finland (104; 20,410)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Concept of the firm</strong></td>
<td>Instrumental, shareholder-oriented</td>
<td>Institutional</td>
<td>Institutional</td>
<td>Institutional</td>
</tr>
<tr>
<td><strong>Board system</strong></td>
<td>One-tier (executive and non-executive board)</td>
<td>Two-tier (executive and supervisory board)</td>
<td>Administrative board (executive and supervisory); auditing board</td>
<td>Board of directors; office of representative directors; office of auditors; <em>de facto</em> one-tier</td>
</tr>
<tr>
<td><strong>Salient constituenc(y)ies</strong></td>
<td>Shareholders</td>
<td>Industrial banks (Germany), employees, in general oligarchical group</td>
<td>Financial holdings, the government, families, in general oligarchical group</td>
<td>City banks, other financial institutions, employees</td>
</tr>
<tr>
<td><strong>Relative development of stock markets</strong></td>
<td>High</td>
<td>Moderate/high</td>
<td>Moderate</td>
<td>High</td>
</tr>
<tr>
<td><strong>Active external market for corporate control</strong></td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td><strong>Relative ownership concentration</strong></td>
<td>Low</td>
<td>Moderate/high</td>
<td>High</td>
<td>Low/moderate</td>
</tr>
</tbody>
</table>

Table 1: Some characteristics of systems of corporate governance in a cross-national setting (source: Weimer, 1995, p.30).
3. Theories of economic organization

In general, systematic research on any given issue of corporate governance requires the establishment of a specific branch of economic theory that is projected onto the research problem at hand. In particular, in this paper it is evaluated which theory is the most appropriate to build upon in order to answer the research question mentioned in the introduction. In accordance with the theory chosen, corporate governance is then defined.

In both the academic and more generally accessible literature, quite a large number of definitions and descriptions of corporate governance have emerged. Apart from the branch of economic theory that is projected implicitly or explicitly onto the governance issue at hand in academic literature, this may be due to the apparent and understandable need of a diverse public to take part in the governance debate, the relatively short history of corporate governance research in a cross-national setting, and its inherent complexity. However, the common feature of the descriptions seems to be that corporate governance encompasses the economic analysis of relationships between participants in a firm, in particular accountability issues regarding top management vis-à-vis investors. On the one hand, this implies that standard micro economics is not sufficiently equipped to research issues of corporate governance, because in this theory the firm is regarded as a holistic entity (a 'black box') that seeks to maximize shareholder value. On the other hand, the focus on the economic analysis of relationships between participants implies that theories of economic organization are appropriate to accumulate knowledge on corporate governance in a systematic manner.

Douma and Schreuder (1992) distinguish three theories of economic organization: agency theory, transaction-cost economics, and the behavioral theory of the firm. Both agency theory and transaction-cost economics come in two forms. Jensen and Smith (1985, p.96) distinguish the 'principal-agent' and the 'positive theory of agency' literatures. The principal-agent literature concentrates on the effects of preferences and asymmetrical information and is generally mathematical and non-empirically oriented. The positive theory of agency focuses on the effects of contracting technology and control and is generally non-mathematical and empirically oriented. A specific strand of the positive agency theory, emphasizing the costs of agency relationships, was developed by Jensen and Meckling (1976). By the same token, transaction-cost economics can be dichotomized by a branch that is mainly concerned with issues of measurement while the other emphasizes the governance of contractual relations (Williamson, 1985, p.26-29).
Limited to the positive theory of agency and the governance branch of transaction-cost economics, agency theory and transaction-cost economics can be regarded as two sides of the same coin. At a relatively high level of abstraction, agency theory and transaction-cost economics are concerned with the question of how organizational forms have developed and under which circumstances these forms can survive (Fama and Jensen, 1983 and Williamson, 1985, respectively). In agency theory, the approach to the question is rooted in the problem of the separation of ownership and control based on Berle and Means (1932), whilst in transaction-cost economics it stems from the problem of vertical integration as posed by Coase (1937): when do firms produce their own needs and when do they procure in the market?

In the behavioral theory of the firm as developed by March and Simon (1958, 1993) and Cyert and March (1963, 1992), the central question is how economic decisions within firms are made. In comparison with the other two theories of economic organization, emphasis is placed on internal organization; the behavioral theory of the firm opens the black box in standard micro economics most extensively. The firm is postulated as a coalition of (groups of) participants. Participants (e.g. employees and shareholders) make contributions to the organization, in return for which they receive inducements (e.g. salary and dividends) from the organization. The provision of contributions enables the organization to survive. Each participant will remain with the organization for as long as the balance of contributions and inducements is found to be satisfying according to the values of the participant.

In behavioral theory it is postulated that corporate goals are arrived at through a bargaining process. In this process, the various goals of the participants are combined to result in the composition and establishment of the general goals of the coalition. The extent to which the goals of each participant are reflected in this outcome is determined by the bargaining power of the participant, which is largely dependent on the uniqueness of his contribution made to the firm. The outcome of the bargaining process is not a single, clearly defined goal, but rather a mixture that reflects the goals of the most powerful participants at a given moment in time. Cyert and March (1963, 1992) have tackled the problem of possibly conflicting goals by assuming that organizational goals are sequentially attended to.
Obviously, the behavioral theory of the firm is the most appropriate to answer the research question. The first step in describing actual decision-making processes within the firm, as behavioral theory sets out to do, is in fact defining the goals of the organization (Douma and Schreuder, 1992, p.66). The substance of this paper is limited primarily to this first step.

4. A behavioral view on corporate governance in a cross-national setting

Given the choice to build upon the behavioral theory of the firm in order to answer the research question, it is now considered how the theory can be placed into a perspective of corporate governance in a cross-national setting in view of the material covered in section 2. The proposed view on corporate governance is suggested to comprise three components: 1) participants, 2) corporate goals and 3) disciplinary mechanisms. The first two components derive directly from the behavioral theory of the firm, with the notable exception that top management is recognized as a separate participant; otherwise it would not be possible to deal with accountability issues regarding top management vis-à-vis investors, which is characteristic of corporate governance. In connection with this observation and the work of Papandreou (1952), the transition from the goals of the participants to the reflection of these goals in ‘corporate’ goals is made through the concept of internalization by a ‘peak coordinator’, which is called ‘top management’ herein. Top management is conceived to be the participant that ultimately formulates and attempts to attain corporate goals, being influenced in the bargaining process by the bargaining power and goals of all other participants and vice versa. The recognition of top management as a separate participant implies that a number of corporate goals reflect the goals of top management itself. In relation to these observations, it is assumed that the bargaining power of a participant is indicated by the extent to which top management attempts to attain corporate goals in which the goals of that participant are reflected.

The inclusion of the third component is characteristic of the cross-national, behavioral perspective of corporate governance: disciplinary mechanisms are recognized as sources of bargaining power at the country level of analysis. As opposed to the outcome of the bargaining process (a set of corporate goals), they are the means by which participants can influence this process in a given national setting. Of course, at other levels of analysis other sources of bargaining power can be recognized. However, these sources are not dealt with herein because of the emphasis placed on the cross-national setting. In accordance with the choice to limit the substance of this paper to
corporate goals *per se* (see section 3), this implies that the attention shifts away from the actual decision-making processes *within* the firm.

Descriptions of disciplinary mechanisms form an integral part of the corporate governance debate in a cross-national setting (see, for instance, Moerland, 1995). Probably the best documented mechanism available to shareholders is the external market for corporate control (Manne, 1965). The managerial labor market can be seen as a component of this market (Fama, 1980; Jensen and Ruback, 1983). The utilization of these mechanisms is limited primarily to Anglo-Saxon countries (see table 1). Relatively independent of the industrialized country taken into consideration, the product markets (Hart, 1983) provide a preeminent mechanism for customers. Depending on their level of development in general and ownership concentration in particular, capital markets (Easterbrook, 1984) do so for both shareholders and suppliers of debt. In addition, the bargaining power of suppliers of debt is enhanced by provisions in debt covenants. Another disciplinary mechanism is the way in which top managers are rewarded; for an overview of the debate on executive compensation, see, for instance, Jarrell (1993), and Conyon and Leech (1994). The installment of a board of directors in Anglo-Saxon countries constitutes yet another mechanism that may serve shareholders, but also others, in communicating their interests to top management (Fama and Jensen, 1983; Demb and Neubauer, 1992). This counts also for two-tier board systems in most Germanic countries, and other board systems in Latin countries and Japan. Finally, in some countries there are legal devices to guarantee that employees can exert influence on corporate decision-making (e.g. regulations applying to works councils in Germany and the Netherlands). In general, the sheer possibility for participants to make use of disciplinary mechanisms, as well as the amount of bargaining power resulting from their utilization is in part country-specific and affected by characteristics of national systems of corporate governance (see table 1).

In view of the three components mentioned above (and again, applying a behavioral view in a cross-national setting), corporate governance is defined as the process in which participants exert influence on corporate goals by means of several disciplinary mechanisms. In figure 1, a corresponding descriptive model of corporate governance is depicted. The purport of the model is that participants attempt to have their goals reflected in corporate goals, and that their bargaining power at the country level of analysis is dependent on the disciplinary mechanisms they can utilize. The cross-national view employed implies that the 'bargaining' process must be interpreted broadly; from a black-and-white perspective, in market-oriented systems implicit
bargaining takes place via the invisible hand of markets, and in network-oriented systems explicit bargaining takes place via the visible hand of dialogue around the negotiation table.

Figure 1: A general descriptive model of a behavioral view on corporate governance in a cross-national setting.

The dynamics of corporate goals are incorporated into the model by means of the inclusion of the real outcomes. Of course, the real outcomes comprise inducements, yet they also include unanticipated side-effects (e.g. an initially successful private placement of an equity issue which turns out to jeopardize the liquidity of shares in a later stage). Only in exceptional circumstances will corporate goals be attained precisely in the manner they were formulated. Over time, the real outcomes are conceived to provide input to the participants in the bargaining process, on which basis they decide to set forth or to withhold their contributions. In connection with the recognition of top management as a separate participant, the outcomes also serve as a point of reference for top management themselves to adjust the goals in the course of time as they see fit.
6. The research plan

In order to answer the research question based on empirical findings, a research plan built upon the specific descriptive model needs to be developed. The research plan encompasses the choices of the research design, the populations from the countries to be included in the inquiry, and the methods of data collection and data analysis. In relation to the research plan, the research design serves as a skeleton. The design chosen is the momentaneous comparative design, because its main feature is the embedded possibility to generalize empirical findings (Van der Zwaan, 1995). This feature connects to the requirement to make statements on financial goals at the country level of analysis.

The choice was made to limit the inquiry to the Netherlands, the US, and Germany. Apart from time and budgetary constraints, as well as the size of their GNPs, this choice is based on differences between the characteristics of systems of corporate governance, in particular disciplinary mechanisms (see table 1). The following passage is quantitatively supported in Weimer (1995, ch.1). The US can be said to be the epitome of the market-oriented system.
black-and-white perspective, the firm is conceived to be a value-generating instrument operated on behalf of the shareholders, the board system is one-tier, the ownership concentration is low, the stock market is well developed, and the market for corporate control is a major disciplinary mechanism. In the 'Germanic' Netherlands and Germany, the firm is considered to be an institutional coagulation of the interests of diverse participants, executive and supervisory responsibilities are formally separated in the two-tier board systems, the ownership concentration is moderate to high, the stock markets are only moderately developed, and the supervisory board is a major disciplinary mechanism (the Raad van Commissarissen and the Aufsichtsrat, respectively). A difference between Germany and the Netherlands that seems to justify the inclusion of two countries attributed to the same country group concerns the role that banks play. In Germany, in particular Deutsche Bank, Commerzbank and Dresdner Bank own large blocks of industrial and trading firms, on top of which they have the right to gather proxy votes from small investors (Depotsstimmechter), or from other banks (Leihstimmrecht); see, for instance, Kester (1992). With the notable exception of 'section 20' provisions, commercial banks in the US are not allowed at all to own shares of non-financial firms on their own account (e.g. Roe, 1990), and in the Netherlands ownership in non-financial firms by banks is limited to 5%. In addition, the bargaining power of German banks may be large as a result of the large number of their supervisory board seats (e.g. Schneider-Lenné, 1994). With respect to the research question and the specific descriptive model, it is cautiously expected that US firms are characterized by an emphasis on shareholder-oriented goals, that German firms distinguish themselves by an emphasis on suppliers of debt-oriented goals, and that Dutch firms are somewhere in between.

The general populations consist of non-financial parent firms, which are listed on the Official Amsterdam Stock Exchange, the New York Stock Exchange, and the first segment of the German Stock Exchanges (Amtlicher Handel), of which the ownership by the respective national governments is either zero, or close to zero. The latter restriction is included because the S-goals in table 2 cannot reasonably be said to reflect primarily the goal of the government as a shareholder, which is also the reason that the inclusion of firms from Latin countries was omitted in the empirical part of the inquiry. The operational populations contain 88 firms in the Netherlands, 1,047 in the US, and 153 in Germany.
The most important method of the collection of primary data is a mail-out questionnaire because its principal advantage in relation to the research design is that it generates standardized data that are amenable to quantification and statistical analysis, allowing for generalizability of the findings. The importance attached to the attainment of the goals in table 2 was measured as the score on a 4-point scale, ranging from 1 (attainment of little importance) to 4 (attainment of crucial importance). An open-ended question on the paramount financial goal was included in the questionnaire, because the goals listed are seen to fit the specific descriptive model *a priori*. The questionnaires were sent to all the firms in the Dutch and German operational populations, and to 500 randomly selected US firms. The principal disadvantages of the use of the mail-out questionnaire are that it is not certain who answers the questions it contains, and that respondents can tell the truth, but not the whole truth. In relation to a large number of other measures taken to enhance the reliability and validity of both the measurement instruments and the research findings (for a summary, see Weimer, 1995, p.241-243), interviews with US and German executives were chosen as a supplementary method of the collection of primary data in order to mitigate the first principal disadvantage.

In accordance with the research design and the most important method of data collection, the most important methods of data analysis are statistical techniques. In particular, the three-sample Kruskal-Wallis test was utilized to test the differences between the goal scores. This test is among the most powerful nonparametric tests: it has asymptotic power-efficiency of $3/\pi \approx 95.5\%$ relative to its parametric equivalent, viz. the $F$-test (e.g. Siegel, 1956, p.193).

### 7. Empirical findings

At the basis of the answer to the research question lies a satisfactory response rate to the mailed questionnaire in the Netherlands (60.2%), the US (25.6%), and Germany (34.7%). The firms in the Dutch, US, and German research populations can be considered representative of the operational populations with respect to the distribution of their sizes in terms of turnover over 1993 and the industries they are in (see Weimer, 1995, p.253-256). At a general level, the answer to the research question is that there are resemblances and differences between corporate financial goals, and that the German firms distinguish themselves the most. This is visible from figure 2, in which the answers to the open-ended question in the questionnaire about the paramount financial goal are condensed.
Making profit and being profitable can be said to be the common denominator of the paramount financial goals in the Netherlands (50.9%), the US (38.8%), and Germany (35.3%); it is the mode of the paramount financial goal in all three countries. The Dutch firms distinguish themselves by scoring the highest on the profit(ability)-related goals in comparison with all other classes. In profit(ability)-related goals the goals of one participant are not clearly reflected. However, the US firms distinguish themselves by an emphasis on shareholder-oriented goals; maximizing and creating shareholder value is a close runner-up (34.5%) to the profit(ability)-related goals. In accordance with the absence of a market for corporate control in the Netherlands and Germany, this shareholder-oriented goal is mentioned almost three times less by the Dutch respondents (13.2%) and somewhat over four times less by the German respondents (7.8%). Although not related directly to the characteristics of systems of corporate governance in table 1, it is remarkable that an almost identical percentage of the Dutch and German firms formulate their paramount financial goals in qualitative terms (13.2% and 13.6%, respectively; for instance, ‘retaining access to capital markets’, ‘preserving flexibility’, and ‘being a financially healthy firm’), which is more than two times higher than in the US. The German firms distinguish themselves the most from the other two countries. The analysis of what the German respondents denoted as the paramount financial goals made it necessary to include three separate classes of
goals, which do not fit any of the Dutch and US firms. Liquidity-related paramount goals (17.6%) can be said to be characteristic of German firms. Although to a lesser extent, this counts also for capital structure-related (9.8%) and dividends-related goals (3.9%). On aggregate, these classes represent almost one third of the German research population (31.3%).

In table 3, the results are depicted of the three-sample Kruskal-Wallis test for testing the differences between the scores on the S-, D-, and T-goals in table 2. In the Kruskal-Wallis test, \( H_0 \) states that \( K \) samples come from the same populations with respect to the average rank of the variable under study. Applied to this inquiry, \( H_0 \) states that the Dutch, US, and German research populations are the same with respect to the average rank of the goal score under investigation. The test statistic by which \( H_0 \) is tested is the Kruskal-Wallis \( H \). \( H_{obs} (H \text{ observed}) \) is calculated as:

\[
H_{obs} = \frac{12}{N(N+1)} \sum_{k=1}^{K} \frac{R_k^2}{n_k} - 3(N + 1)
\]

where

- \( N \) = the total number of cases in the \( K \) research populations
- \( n_k \) = the size of the \( k \)th research population
- \( R_k \) = the sum of the ranks in the \( k \)th research population.

Under \( H_0 \), the sampling distribution of \( H \) approximates the \( \chi^2 \) distribution with \( df = (K - 1) \). Thus, \( df = 2 \) here. The value of \( H_{crit} (H \text{ critical}) \) is derived from a table of the distribution of \( \chi^2 \), at the standard significance level of \( \alpha = 0.05 \) (two-tailed). For this test, \( H_{crit} = 5.99 \). \( H_0 \) is rejected if \( H_{obs} \geq H_{crit} \).

As the figures in table 3 show, the differences between the average ranks of goal S1 (return to shareholders) and goal T1 (corporate purchasing power) are the greatest. For these goals, as well as goal T2 (restricting direct influence), \( H_0 \) is rejected; with respect to the scores on these goals, the Dutch, US, and German research populations are not the same from a statistical point of view. In the table, they are marked with an asterisk (*).
Rank Rank Rank
Neth. US Ger. 
Av. Av. Av. H_{obs}
Rank Rank Rank

<table>
<thead>
<tr>
<th>Goal Description</th>
<th>Neth.</th>
<th>US</th>
<th>Ger.</th>
<th>H_{obs}</th>
</tr>
</thead>
<tbody>
<tr>
<td>S1: Return to shareholders (*)</td>
<td>76</td>
<td>125</td>
<td>112</td>
<td>27.3</td>
</tr>
<tr>
<td>S2: Earnings per share</td>
<td>104</td>
<td>112</td>
<td>112</td>
<td>0.747</td>
</tr>
<tr>
<td>D1: Secure solvency</td>
<td>119</td>
<td>105</td>
<td>112</td>
<td>2.05</td>
</tr>
<tr>
<td>D2: Cash flow for debt financing</td>
<td>101</td>
<td>106</td>
<td>124</td>
<td>4.60</td>
</tr>
<tr>
<td>T1: Corporate purchasing power (*)</td>
<td>101</td>
<td>99</td>
<td>145</td>
<td>24.0</td>
</tr>
<tr>
<td>T2: Restricting direct influence (*)</td>
<td>114</td>
<td>100</td>
<td>128</td>
<td>7.61</td>
</tr>
</tbody>
</table>

Table 3: Results of the Kruskal-Wallis test for testing the differences between the scores on the S-, D-, and T-goals in the Netherlands, the US, and Germany. The highest average ranks for the significant differences are printed in bold.

The cautious expectation about the relatively large bargaining power of shareholders in the US is supported by the high score on goal S1. In view of the absence of a market for corporate control in the Netherlands and Germany, and the use that Dutch firms make of a number of structural and technical fend-off measures (e.g. Cantrijn et al., 1993), the average rank of this goal for the Dutch is also in accordance with this expectation, and the average German rank may be higher than initially expected. The other S-goal (earnings per share) could be termed a universal financial goal and does not point to significantly larger bargaining power of shareholders in any of the countries. Interestingly, none of the German respondents denoted an earnings per share-related goal as paramount in the open-ended question, whereas the average ranks of goal S2 for the US and Germany are equal.

The envisioned relatively large bargaining power of suppliers of debt in Germany, in particular banks, is only weakly supported by the figures in table 3. The German respondents on average assign greater importance to the attainment of goal D1 (secure solvency) than do the Americans, yet the difference cannot be great enough to reject $H_0$ since the Dutch managers score higher than German managers on this goal. The average German rank of goal D2 (cash flow for debt financing) makes the value of $H_{obs}$ come close to that of $H_{crit}$, yet the differences with the Dutch and US ranks are not great enough to reject $H_0$ ($H_0$ is in fact rejected when the significance level is set at $\alpha = 0.10$).
On the other hand, the bargaining influence of top management is relatively very large in Germany. The significantly higher score on goal T1 (corporate purchasing power) seems to be consistent with the observation on the relatively high German emphasis placed on liquidity-related paramount financial goals (see figure 2 and the full description of goal T1 in table 2). In support of the cautious expectations, the Dutch respondents do not score significantly higher on financial goals in which the goals of one participant are primarily reflected.

The aforementioned and other findings were supplemented by interviews with thirteen US managers (among which managers from Abbott Laboratories, McDonald’s, and BFI), and eight German managers (among which managers from Daimler-Benz, Deutsche Babcock and Siemens). An elaborate discussion of the results is presented in Weimer (1995, p.315-322). Although the evaluation of selected statistical data by US managers was highly illustrative, it did not give rise to a surprising interpretation of the findings; the evaluation by German managers led to more fascinating conclusions.

The general impression generated by the interviews is that German managers do perceive the bargaining power of banks to be large. In many cases, the managers even experience the banks’ involvement as oppressive through their multiple roles as suppliers of debt, shareholders, and supervisory board members, yet their financial expertise is appreciated highly. The interviews back the observation that the external suppliers of capital as mentioned in the formulation of goal T2 (restricting direct influence) are banks; German managers seem to anticipate the perceived bargaining power of banks by making themselves as independent as possible from them. Of course, the German managers can hardly obtain such relative independence by convincing the banks to vote only in favor of management’s proposals in the general assembly of shareholders, and can not have them, or do not want them, to dispose of their supervisory board seats. Therefore, relative independence is achieved by focusing on the firm’s ability to repay short-term debt (liquidity-related paramount financial goals), and, strongly related to liquidity, by creating corporate purchasing power (score on goal T2) in order to be able to take investment decisions of a modest size autonomously.

Theoretically, this explanation is the most consistent with Pfeffer and Salancik’s (1978) resource dependence perspective and Donaldson’s (1984) theory of corporate wealth. In addition, it adheres to a number of German textbooks on corporate finance, into which much more behavioral aspects appear to be incorporated than in US textbooks. For instance, Hahn (1983) relates the role that
independence considerations play as part of his elaboration on behavioral characteristics of the
decision-making entity, in which even the backgrounds (technician, lawyer, salesman, banker) of
the individual decision-makers within the top management are examined, and expounds on the
striving for independence as one of the criteria on which corporate financing decisions are based.
Hahn sees the flow of information to investors as the most munificent impediment to what he calls
the 'sovereignty' of the firm, whereas the legal rights of the suppliers of capital are considered the
most severe. In relation to independence, indeed Hahn (1983) devotes considerable attention to
liquidity (p.33-34, ch. 1B, 1C, 4B, and 5C/IV). In summary, the bargaining power of German
banks is perceived to be large by managers who are subject to it, and the established large
bargaining power of top management according to the specific descriptive model can be related to
characteristics of the German system of corporate governance.

8. Concluding remarks

In this paper, the rough contours of a behavioral view on corporate governance in a cross-national
setting were proposed, and some empirical findings on the corporate financial goals of Dutch, US,
and German firms were evaluated in relation to the consideration of disciplinary mechanisms as a
source of bargaining power at the country level of analysis. The embryonic stage of development
the framework is in was made explicit by the empirical results, yet the findings appear to indicate
that the behavioral view on corporate governance need not necessarily be refuted as a result of a
lack of empirical support. Particularly for the US firms, the paramount financial goals seem to
indicate the envisioned large bargaining power of shareholders in comparison with the
Netherlands and Germany. The empirical analysis built upon the operationalization of the
bargaining power of participants as the extent to which top management attempts to attain
corporate goals that are seen to fit the descriptive model a priori additionally backed the
characteristics of the US system of corporate governance, yet the expected relatively large
bargaining power of suppliers of debt in Germany was supported only weakly. In concordance
with cautious expectations, the Dutch respondents did not score significantly higher on financial
goals in which the goals of one participant are considered to be primarily reflected. The German
findings point to a general drawback of the specific descriptive model: it does not directly
anticipate the phenomenon that one participant provides different contributions simultaneously,
which, at the same time, is characteristic of some systems of corporate governance. A possible
approach to anticipate the drawback is to use different methods of data collection and data
analysis in research on issues of corporate governance when a behavioral view in a cross-national
setting is applied. As this particularly inquiry hopefully has shown, for instance, interviews as an additional method of data collection can provide useful insights. Apart from the obvious recommendation for future research to inquire corporate financial goals in other countries than the ones included herein, conducting interviews may be particularly helpful when the analytical attention shifts from the identification of corporate goals per se to the description of actual decision-making processes within the firm.

9. Bibliography


10. Notes

1. For instance, in the Cadbury Report corporate governance is described as 'the system by which companies are directed and controlled', Demb and Neubauer (1992) define it as 'the process by which corporations are made responsive to the rights and wishes of stakeholders', Dimsdale and Prevezer (1994) state that 'corporate governance is concerned with the way in which corporations are governed'. In OECD reports corporate governance is said to involve 'the regulatory and institutional arrangements governing the establishment and transfer of ownership rights and the monitoring of corporate managers' (e.g. OECD, 1995), and Boot (1994) defines it as 'the way in which, and the extent to which, different participants (such as shareholders and suppliers of debt, but also employees) can influence the decision-making process within the firm. This includes the ways in which top management renders an account of their functioning'. The latter definition is translated from the Dutch 'de wijze waarop, en de mate waarin, diverse participanten (zoals aandeelhouders en verschaffers van vreemd vermogen, maar ook werknemers) invloed kunnen uitoefenen op het besluitvormingsproces in de onderneming. Hierin is begrepen de wijze waarop de ondernemingsleiding verantwoording moet afleggen over haar functioneren'.

2. The positive theory of agency and the governance branch of transaction-cost economics are very similar in that both work out of a managerial discretion set-up, they adopt an efficient contracting orientation to economic organization, and argue that the board of directors in a firm arises endogenously. Leading differences are concerned with the basic unit of analysis, the focal cost concern, and the way each deals with organizational form. In agency theory the basic unit of analysis is the individual agent, the focal cost concern is the residual loss, and, according to Fama and Jensen (1983), organization forms are distinguished by the characteristics of their residual claims. In transaction-cost economics the basic unit of analysis is the transaction, the focal cost concern is the maladaptation costs, and it treats hierarchical decomposition and control as part of the organization-form issue (Williamson, 1988, p.569-575).


4. Apart from the aforementioned reason to recognize top management as a separate participant, the concept of internalization through top management is used for two reasons. First, from an analytical point of view, in an empirical inquiry it is less difficult to identify top management assumed to represent the coalition rather than to identify the coalition itself. Second, from a pragmatic point of view, it is in fact top management which ultimately formulates and attempts to attain corporate goals because this is a task inherent in their function.

5. At lower levels of analysis, in Weimer (1995, p.167-175) sources of bargaining power are recognized at the level of the industry (e.g. capital intensity), the level of the firm (e.g. profitability), and the level of the participants (e.g. uniqueness of contributions), in particular the level of the top management (e.g. managerial ownership).

6. This definition very much coincides with the definition presented by Boot (1994) in section 2. The rendering of top management's account of its functioning is comprised in the definition. The phrase 'the ways in which' is incorporated in the disciplinary mechanisms. The phrase 'the extent to which' can be indicated by means of the formulation of corporate goals as a primary outcome of the decision-making process of top management.

7. The formulation of the T-goals in the table is based mainly on a study of financial goals of twelve large, listed US firms by Donaldson (1984), in which both the psychological and functional aspects of top management are brought onto center stage. Donaldson identified as the common denominator of the paramount financial goals of these firms the maximization of corporate wealth, which he defines as 'the aggregate corporate purchasing power available to management for strategic purposes during any given planning period' (o.c., p.3). This term is briefly elucidated in the table because it is expected to be rather unfamiliar. The inclusion of goal T2 is strongly related to the maximization of corporate purchasing power.
and to Myers' (1984) pecking order story, as well as to Pfeffer and Salancik's (1978) observations about resource dependence.

8. The main reason not to include Japan in the inquiry is the fear that the descriptive model has 'Western' features, particularly regarding the theoretical role of corporate goals. The summary of our interpretation of Ouchi (1981), as seen from a black-and-white perspective, is that corporate goals in the US represent a desired state of affairs that the top management attempts to attain, whereas in Japan it represents an undesired state of affairs that the top management attempts to avoid. As Morgan (1986, p.92-93) indicates, such undesired states of affairs may be detected by, for instance, the ritual of ringi. The ringi is a collective decision-making process in which proposal documents - for instance, a document containing a proposal of corporate financial goals - passes from executive to executive for approval. The goal of the ringi is to explore the values of the executives. If any of the values of the executives results in a perceived undesired state of affairs as a result of the proposal, this is noted on the document. The document is recirculated, until agreement is reached. If we interpret Morgan correctly, in the US view, the values of the top management are subordinate to the corporate goals and in the Japanese view, the corporate goals are subordinate to their values.

9. In the literature on corporate finance, mail-out questionnaires and interviews are rather uncommon, although Cools (1993, p.258-260) traced about ten publications in acceptable journals drawing conclusions from survey studies. Among them are Scott and Johnson (1982), who argue: 'Based on the effort that went into this study we appreciate more than ever how very difficult it is to both design a worthwhile financial survey and elicit adequate, useful responses. It is more challenging than most financial academics realize, and is every bit as complex as the design of any of the statistical methodologies that currently pervade our literature' (p.52).

10. The way in which the categorization was made and a description of the different goals incorporated into one category are extensively described in Weimer (1995, p.256-259).

11. Some nuance is added to the statement about the shareholder orientation of the US firms by taking into consideration the percentage of Dutch firms that denoted earnings per share as the paramount financial goal (22.6%), which is closely related to shareholder value if earnings per share approximate cash earnings per share. By means of this goal, the Dutch firms distinguish themselves from the German firms, of which none consider earnings per share-related goals as paramount, which is unexpected. However, the percentage of Dutch firms claiming to pursue earnings per share and shareholder value (22.6% + 13.2% = 35.8%) is not sufficient to catch up with the US firms pursuing these goals (34.5% + 9.5% = 44.0%).

12. Some nuance is added to the German uniqueness by taking into consideration that sales-related goals are a separate class including US firms only (5.2%). In addition, only the respondents of US and German firms contend to have cash flow-related goals considered as paramount (5.2% and 7.8%, respectively). Yet still, the general conclusion has to be that the paramount financial goals in Germany are relatively the most different.