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Abstract:
In this paper corporate governance (CG) paradigms are viewed as equal to any intellectual innovation and we examine their diffusion mechanisms. After a brief review of CG and diffusion, a framework for the diffusion of CG paradigms is proposed. We rearrange previous studies into pressures and propose the concept of command as a motivational aspect of innovation. We proceed to position sustainable development in the proposed framework. Finally, implications of the framework are discussed with a special focus on Sustainable development as an extension to shareholder value or as a departure from it.

Keywords: Corporate governance, diffusion, sustainable development, shareholder value, command
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"Corporate citizenship is about the contribution a company makes to society through its core business activities, its social investment and philanthropy programmes, and its engagement in public policy. The manner in which a company manages its economic, social and environmental relationships, and the way it engages with its stakeholders (such as shareholders, employees, customers, business partners, governments and communities), has an impact on the company's long-term success.” (World Economic Forum 2003)

INTRODUCTION

Ideas as innovations require compatible “mental sockets” in order to be interpreted by the adopter. That is, ideas need to be built on previously incorporated ideas to spread from one individual to another and by extension, one society to another. Furthermore, individual ideas can be “assembled” into coherent blocks to be better exported, understood or simply to be more complex. For example, to understand the concept of “corporate governance”, one has to understand the concept of “governance” and “corporation”. With this in mind we view corporate governance paradigms as complex sets of ideas about how corporations should be governed. However, similarly to policy diffusion, corporate governance paradigms are prone to change and evolution providing the correct building blocks and mental sockets are provided. Sustainable development is such an evolution. It is being pushed by phenomena such as global warming, a rising awareness of poor working conditions in corporate foreign operations, increasing inequalities between and within countries and the idea that corporations should play a more active role in local and global communities.
We propose a framework for analyzing the diffusion of corporate governance paradigms. We first review the concepts of corporation and governance to see how corporate governance can be interpreted. Prior to introducing the framework we review relevant studies on the diffusion of innovation. These serve as the basis for our differentiation between pressures and commands. Indeed, most diffusion studies reviewed focus nearly exclusively on the pressures to innovate while barely looking at motivational aspects of innovation. We propose 4 classes of motivations, named commands, these are political, legal, ethical/moral and informational. Each refers to the innovation adoption preferences of corporations seeking to innovate in corporate governance. Finally, a discussion ensues of implications of this framework and directions to improve it.

GOVERNANCE, CORPORATION AND CORPORATE GOVERNANCE

Khaler & Lake refer to governance as being “decisions issued by one actor, that a second is expected to obey” (2003, p.7) and Keohane and Nye define governance as “the processes and institutions, both formal and informal, that guide and restrain the collective action” (Kahler & lake 2003, p.7). Accordingly, we define governance as the set of formal and informal authorities between an individual or institution and a governed collectivity.

Authority can be formal (structural) or informal (Westphal, 1997). Formal authority is legitimized through a “contract” between the ruled and ruler. For example, company hierarchy sets the CEO structurally above the floor worker, and this is legitimized by the set of contracts internal to the company. Similarly, a democratically
elected president is legitimized through the election process, a contract between the people and the president (or ruling party). Informal authority is the influence a group or individual yields through channels in the absence of such a contract. In a democracy, a politician first acquires informal authority by campaigning and then has formal authority granted on him through the election process. Conversely, Westphal (1997) evidenced that in the case of a loss of structural power, CEOs tended to increase informal types of authority.

According to Peters (1967, p.92-94, in Khaler and Lake 2003, p.8) authority does not necessarily need to be coercive. “Coercive compliance” is contrasted by “voluntary compliance”. Khaler and Lake (2003, p.9) argue that when a leader imposes his or her will upon the lead through threat then the lead are subject to coercive authority. And when no threat leads to compliance then it is voluntary. They later argue that the power of the leader is dependent on the willingness of followers to test the limits of the leader. Thus a weak leader will often be tested and has a higher probability of being replaced, while a strong leader will seldom be tested and will therefore have a lower probability of being replaced. The centrality of authority defines how close the decision making is to the group. In a highly centralized government, decisions consequences span over a larger population and are taken at a higher level. In a highly decentralized government, authority is closer to the population and decisions more accurately reflect local needs.

According to the UNDP, “good governance is, among other things, participatory, transparent and accountable” (http://magnet.undp.org/policy/chapter1.htm#b). It is composed of economic, political and administrative elements. The economic and political
elements centered around economic and policy decision making in a country, while administrations are concerned with implementing policy.

A corporation is a legal entity that can define its own goals and purposes and is seen as a (moral) person by law. The aim of the corporation is to pool the investment capacity of many investors so as to realize greater projects without making the investors liable of the corporation’s actions. Therefore corporate governance can be defined, in an extremely minimalist way, as the set of formal and informal authorities between the managers and shareholder / investors and all others interacting with, and within, the corporation. The contemporaneous debate about corporate governance arises when trying to understand the internal and external responsibilities of the firm.

A polarized view of corporate governance leads to differentiate between a shareholder orientation and a stakeholder orientation. The shareholder value (SHV) paradigm holds that companies should be run in the interest of shareholders. Valuebasedmanagement.com defines it as being « the value of the company minus future claims ». This paradigm is therefore capital oriented with the belief that external forces (government regulation for example) should limit corporate actions.

One of the pillars of the shareholder value paradigm is agency theory. In their seminal paper, Jensen & Meckling describe the corporation as a “Legal fiction which serves as a nexus for contracting relationships and which is also characterized by the existence of divisible residual claims on the assets and cash flows of the organization which can generally be sold without permission of the other contracting individuals”(1976, p.9). Agency issues arise as a consequence of this view of the firm and control schemes are needed to restrict opportunistic attitudes towards residual claims.
Argenti (1997, in Clarke 2004, p.193) proposes a few justifications for SHV. Among these are the relative homogeneity of the shareholder group when compared to the stakeholder group, the clear demands of shareholders, the “need for a single bottom line” for managers to keep focus… Put simply, the SHV orientation believes that the “business of business is business” (Friedman) and that it should remain focused on its “business”, hence, on wealth maximization for the shareholder. As a result, the strategic philosophy of the firm is centered around financial performance; corporate responsibilities are restricted to the shareholders and philanthropic initiatives mostly external to the firm.

SHV has its critics, however. C.K. Prahalad (11 May 1993; in D. Chew 1997, p.48) argues that financial economists exaggerated the conflict between capital and management through inappropriate assumptions in their model. He also contends that the governance model thereby promoted is crisis-driven when governance should be aimed at crisis prevention. By focusing exclusively on the tensions between capital (ownership) and management all other issues within the firm have been ignored. Thus, it is believed that a narrow focus on agency theory as explaining the tensions between the firm and its environment invariably leads to short-termist action ignoring the plethora of other stakeholders of the firm.

Corporate social responsibility (CSR) and sustainable development (SD), on the other hand, are part of an increasingly collaborative and relational governance system. They are therefore inherently part of (and developed by) a stakeholder approach to global governance. This approach extends the responsibilities of the corporation away from the shareholder to the variety of other stakeholders of the firm. In contrast to the single bottom line, proponents of these views argue that the firm is to expand its reporting to
include environmental and social performances (Elkington, 1998). As a consequence of its collaborative nature the fundamentals of a stakeholder approach are shifted away from a control structure to a more steward centered structure.

Stewardship theory sheds a different light on the attitudes of managers. It uses psychology and sociology to interpret the intentions and behaviors of top managers. This theory argues that the steward manager strives to attain the objectives of the firm rather than maximize his own utility. Davis et al. (in Clark 2004) define characteristics of top managers that differentiate them from the utility maximizing agent depicted in agency theory. They assert that as managers identify to the firm and have higher order needs (as defined by Maslow), the tendencies of managers will be those of stewards rather than agents. And control schemes put forth by owners will tend to undermine the steward behavior of managers. In the same vain, the stakeholder orientation expands the responsibilities of the firm (Alkhafaji, 1989; Freeman, 1984). It is argued that a multitude of actors have a stake in the wellbeing of the firm (and vice-versa), such as employees, suppliers, customers, the environment and the community.

Sustainable development extends the responsibilities adhered to by CSR. It maintains the three pillars of corporate social responsibility (Economic, social and environmental responsibilities) but extends these in time by aiming to satisfy the needs of today’s population without compromising those of future generations. Importantly, while the SHV paradigm has tended to promote short-termism and views resources as being at the complete disposal of humans for usage, the sustainable development approach takes a long-term stance and views resources as being limited but regenerative calling for restraint in their use.
To this brief overview of the differences between SD and SHV it needs to be added that the debate is also a philosophical/ethical debate about the position of humans in nature (Galdwin, Kennely & Krause, 1995). The mechanistic, reductionist views of SHV are contrasted by a more systemic take on economics, society and the environment in SD. While sustainable development can be viewed in a purely economic framework (win-win situations, for example) the tendency is to interpret it in a very much wider sense. Therefore, the set of ideas that compose sustainable development can be an extension to shareholder value or a departure from that paradigm.

**DIFFUSION**

The working hypothesis of our paper being that corporate governance principles can be treated as a special kind of innovation in the way they spread, we proceed to briefly review relevant diffusion studies.

Rogers (1995) differentiates between inventions and innovation. According to him, inventions are the creation of ideas and innovations are their adoption. One of the defining characteristics of innovations is that they are perceived as new by the adopter. He identifies other attributes of innovations, some of which are their relative advantage over past innovations; the degree of complexity inherent to the adoption of the innovation; the degree of compatibility with other innovations; and the observability of innovations (the degree to which an innovation adoption is socially visible).

Observability and relative advantage, as motivational aspects of innovation adoption, are of particular interest to our discussion. According to Rogers (1995), the Chicago School of Economics argues that the only relevant aspect in the adoption
decision is the economic advantage conferred by the innovation. Thus economic innovation is mainly motivated by a desire for efficiency. On the other hand socially motivated innovation (such as luxuries) shows that a status aspect to innovation adoption does exist. Therefore symbolic (Fukuyama, 1992; Rogers, 1995; Wejnert, 2002) as well as economic motivations for innovating are to be considered.

According to Rogers (1995) the adoption decision process occurs in five steps. These five steps describe how the behavior of the potential adopter will evolve with respect to the innovation proposed. Chronologically these are knowledge, persuasion, decision, implementation and confirmation of the adoption decision. These steps effectively correspond to a potential adopter learning about an innovation; evaluating the compatibility with previous beliefs, innovations and/or social norms; taking a position with respect to the innovation; acting according to the position taken; and finally maintaining or not (in the case of discontinuance of an adoption) the position chosen. Hence, the adopter is not a passive consumer of innovations. Furthermore, Strang & Soule (1998, p.276) posit that there is an “Interpretive process” involved in the diffusion of ideas. The recipient will understand the innovation in terms of the norms and beliefs that he holds.

Lillrank (In Rogers, 1995) suggested that ideas have to be put in an abstract form to be easily exported. These abstract forms can then be unpacked and reinterpreted upon arrival. Ideas that are easy to understand in this abstract form will diffuse more rapidly and more widely, while those that cannot be understood or that are in conflict with held norms and beliefs will be discarded. Hence, if innovations are not compatible with
Rogers (1995), Wejnert (2002) and others have also identified social networks as having a very strong effect on adoption decisions. According to them, social and geographical proximity strongly influence potential adopters through peer group pressures. As innovations are increasingly adopted by proximal peers, pressure mounts for non-adopters to conform. Conversely, as adoptions are rejected within a social or geographical group the probability of adoption by similar individuals also drops. Granovetter (1973) adds to this that the strength of network ties is a determinant factor in innovation diffusion. He argues that weak ties between heterogeneous groups allow for rich content information flows and thus help diffusion through external links, while strong links internal to groups reinforce adoption decisions and are a source of homogeneity. Additionally, adoption decisions in social networks are heavily influenced by the opinion leader or highest ranking individuals’ decisions (Wejnert, 2002).

Diffusion is therefore an internal as well as an external process: Adopters actively form behaviors with respect to innovations but are also subject to group pressures.

**Internal Pressures**

Internal pressures are all the group dynamics that lead to uniform responses when faced with an innovation adoption decision. Information and environmental uncertainties can be seen as major driving forces behind the similarity in adoption decisions within groups. Such uncertainties will usually lead to imitation as a mean of gaining legitimacy (Abrahamson, 1991; Dimaggio & Powell, 1983) or because other players are perceived as having more information (Dimaggio & Powell, 1983). Dimaggio & Powell (1983)
hypothesized that the more uncertain an organization is about the means of achieving its goals the more the organization will model itself upon players it perceives to be successful. Fewer number of visible organizational model alternatives will lead to greater similarity as the field is constrained. Strang and Soule (1998) refer to “mimicry” as being the result of increased competition within groups. A significant problem with these innovation adoptions, however, is the spread of inefficient innovations (or abandonment of more efficient ones) and the speed with which these occur. Unforeseen consequences of innovations are quick to appear and these can have a serious impact on social cohesion.

Normative pressures are associated with the ways in which groups seek to define themselves. The social and academic background of professionals tends to be normative. Indeed, “The greater the reliance on academic credentials in choosing managerial staff personnel, the greater the extent to which an organization will become like other organizations in its field” (Dimaggio & Powell, 1983, p.150). High status professional organizations will tend to attract high grade employees from similar backgrounds. However, this status can only be acquired through conformity with the professional body. Evidently, culture acts as a normative pressure and can be seen as the root of many rejection or adoption decisions. This links back to the compatibility with held norms and beliefs.

External Pressures

These kinds of pressures refer to all the external forces that move adoption decisions within a group in a similar direction. By acquiring a level of highly centralized power small groups of actors will be able to impose adoption decisions on the wider
population (Abrahamson, 1991; Dimaggio & Powell, 1983). This power to impose decisions on the wider group essentially stems from strong political influence or legitimacy. However, although these powers are strong within a given group they are usually constrained to it. For example, a government can impose certain laws on the population it governs through such channels, but not on the population of another country. Nevertheless, strong actors can influence the adoption decisions imposed on the population. Through “special” interactions with states (big contracts, privileged contacts…) and/or by achieving a critical size, an organization can impose its views and methods upon the rest of the population.

By taking a resource dependent approach to innovation adoption, Elg and Johansson (1997) examined how the centrality or concentration of resources in a network of firms can tilt decision making power to those controlling the resources. They evidenced that firms controlling resources in networks can strongly influence the speed and direction of decision making. Furthermore, even in the case where certain decisions could make the network better off as a whole, environmental uncertainties lead less influential players to not voice their opinions. This, they found, is due to the fact that all players know their current position in the network but cannot predict the effect on their network position if the “resourceful” player is alienated. That is, the uncertainty cost of displacing the most important player outweighs possible gains. As a consequence, it can be said that innovation adoptations decisions concerning whole networks will tend to be sticky processes in which the consent of a few strong players will tend to have a disproportionate weight on the final decision. Wejnert (2002) adds that the consequences
of innovation can be public or private. Private consequences affect only the adopter while public ones affect a wider group.

On another note, the neo-liberal and liberal schools of thought in economics portray market forces as being the penultimate mean of achieving efficient resource allocation. From this view, Khaler & Lake state that “competitive economic pressure will produce institutional and policy homogeneity over time in a direction most favored by the mobile factors of production – foot lose capital” (Khaler & Lake; In Simmons & Elkins 2003, p.280). According to this, economic pressure acts as a form of isomorphism. In response to Khaler & Lake’s economic arguments, Simmons & Elkins (2003) argue that policy convergence can come through human contacts and that similarly oriented governments will share similar views. Abbot & De Viney (1992) further argued that structural equivalence is a good prediction of innovation diffusion between states. While Roe (2003) identified a clear correlation between corporate governance inclination and government type (left-right), supporting the claim of a path dependent view of corporate governance diffusion.

Mass media also act as external influences. The scope and reach of mass media ensures that a single message source can reach a multitude of different categories of adopters. In addition, the mass media edits and amplifies the message. Dyck & Zingales (2002) identify three types of pressure which the media use to further the diffusion of innovations: political pressure, economic pressure and social pressure. Political pressure acts by driving politicians to introduce or enforce new laws in order to save their political reputation or managers to introduce new management techniques to save their jobs. Economic pressure acts by influencing manager’s reputations and through this their pay
and value on the job-market. Finally, social pressure acts by exposing the doings of managers and directors to the whole of society, exposing them to the wider social judgment.

A FRAMEWORK TAXONOMY

On the basis of the above literature review we view diffusion as a pull-push process in which external pressures are combined with actor specific intentions to innovate. We analyze the diffusion of corporate governance through two dimensions: First, we propose three classes of pressures. Second, we examine diffusion as an intentional process and propose a set of motivational aspects. These dimensions and sub-dimensions have not been empirically validated and are proposed as an exploratory model for the diffusion of corporate governance principles.

Pressures

We define as pressures all the external forces that push innovation adoption decisions in a given direction. Based on previous research we isolate three major pressures through which innovations diffuse. These are essentially a reclassification of the studies presented above and will therefore not be extensive. We isolate two types of political pressures (where the word politics is understood as meaning “the process of gaining and maintaining support for common action” 

http://experts.about.com/e/p/po/Politics.htm and an economic pressure.
Formal political pressures

Formal political pressure is composed of all pressures that are structural or emanate from a highly centralized minority that forces innovation on the rest of the group. The type of authority exerting this pressure will tend to be formal, coercive and have a vertical (Wejnert 2002) path of influence. An organization’s centrality in the network has a clear influence on other actor’s innovation decisions. These pressures have a seriously limiting effect on the liberty of choice other actors have in the innovation process. Although these pressures are most often contractual in nature, excessive dependence of one agent on another can lead to similar effects (as in the case of resource dependency). That is, non compliance will almost inevitably result in serious financial or other losses for the non-complier.

Informal Political pressures

These pressures arise from the wider social group, are informal and tend to be decentralized and weak. They are typical of status seeking organizations and do not involve any contractual relationships between actors. This pressure will tend to act through voluntary powers in which adopters seek out innovations rather than have them imposed on them. The fad and fashion perspectives described by Abrahamson (1991, p. 597) as well as mimetic and normative isomorphism (Dimaggio & Powell 1983, p. 151) are to be considered as informal political pressures. Informal political pressure therefore causes weaker organizations to conform to the ways of stronger ones through the set of uncertainties and information asymmetries faced by the former. Although the leading institution might not actively be seeking such power, actions confer it to them. And even though legitimacy may be acquired through formal power (government institutions, or
government recognized institutions), the pressure exerted on the rest of the group is not formalized. For example, normative isomorphism as felt by the professions does not result in the professions having structural power over the rest of society. Indeed, a consultancy cannot impose its view on other companies although other companies might highly respect the consultancy. However, such consultancies can acquire a role of privileged change agents for government / centrally imposed actions (such as in the case of the Sarbane-Oxley regulation) through their formal training.

Economic pressures

This type of pressure regroups all the influences that are purely economic by nature. This pressure has the effect of exacerbating the performance gaps between stated and achievable goals by putting a strain on the innovator’s economic performances. Under Abrahamson’s efficient-choice perspective (1991), the company will possess all the information necessary to minimize this pressure as they have limited environmental uncertainties. Innovation will therefore be driven solely by the will to minimize the above stated performance gaps.

Commands

According to Ajzen (1991) behaviors are derived from behavioral intentions which are the results of a combination of three elements within the person, namely, attitudes towards the behavior, subjective norms and perceived behavioral control. Attitudes towards a given behavior are the beliefs about the likely consequences of the
behavior. Subjective norms refer to the individual’s beliefs about others’ expectations and the extent to which they influence his/her behaviors. And perceived behavioral control is the set of beliefs about the possibility of success of a given behavior. Additionally, people of comparable attitudes and beliefs tend to create bonds at a higher rate than people dissimilar in these characteristics; as well as share perceptions (McPherson, Smith-Lovin & Cook, 2001) and selectively perceive similar elements of their environment. In terms of innovation adoptions it can therefore be said that individuals of similar orientations will innovate in similar ways; be subjected to similar social pressures; share similar expectations about success; and have similar levels of environmental and informational uncertainty. Importantly, behaviors and therefore decision making are constrained by internal (attitudes towards a behavior such as norms and beliefs) and external (how significant others perceive it) elements.

In the case of organizations it has been noticed that “networks composed of organizations similar in terms of structure, content, and goals” (Wejnert, 2002, p307) will tend to behave similarly to interpersonal networks. Therefore, we argue that organizations, as information processing “super-organisms” (where individuals can be viewed as decision nodes similar to neurons), have identical behavioral traits and adoption motivations to the elements that compose them (Tarter & Hoy, 1998). Since we believe that intentions strongly influence governance styles, it is through them that we define the groups. These intentions are either political, economic, moral or a need to reduce information asymmetry to jump to another command group. Consequently, we define command as the major constraint under which a person/organization chooses to innovate in order to maximize economic returns. Furthermore, the environment in which
companies evolve as well as organizational intentions are dynamic; the carrying capacity for each command group might vary over time, causing company commands to shift.

*Political command*

This group is composed of all the actors that seek to maximize economic returns given social constraints. It is a status seeking group that is motivated by symbolic aspects of innovation and innovates with the intention of gaining and maintaining support from the wider group and has strong authority. It can be defined as a group that has a low level of internal consistency (norms and beliefs) while having a strong external focus (desirous to fulfill others’ expectations). Consequently, organizations in this command will tend to be volatile in their actions but have high following.

The low level of internal consistency of these firms leads to high levels of inefficiency which can be exploited by firms in the legal command or by corporate raiders. Furthermore, the high level of volatility will often lead to short bursts of high success followed by periods of unsuccessfulness.

Economic pressures can exacerbate inconsistencies between words/policies and actions in corporations following this command. This mechanism will tend to operate through a lack of transparency of the corporation which will tend to diminish incentives to be internally consistent while seeking to boost external consistency. In terms of sustainable development this has often been noticed with the concept of greenwash, whereby a corporation professes *green* practices in an effort to gain support, without truly abiding to green principles. Economic pressures on a political command can therefore push corporate governance stances towards *populism*.
British Petroleum’s case illustrates this. Although this company should be defined as following an economic command, pressure has been mounting for energy corporations to play a bigger role in the development of cleaner energies. As such, BP has been trying to cast itself as a green oil company. However, several discrepancies have arisen between its actions and words.

In 1999, as part of its recent facelift, BP acquired Solarex the world’s leading solar company, later renamed BP Solar. However, over the four years preceding its takeover, BP Solar tumbled to the fourth position with an increase in output 68% below the global increase in the same period (Johnson, 2004). While more recently, a lack of investment in its pipelines has lead to spill in its pipelines in Alaska and its traders in Texas have been caught cornering the market for gas (The economist, June 29th 2006). Despite management’s supposed unawareness of such practices it is a major corporate governance issue to prevent such happenings.

In order to pre-empt formal political pressures corporations can capture institutions (a process by which “business interests unduly influence the decision-making processes of standard-setting and regulatory institutions” Utting, 2000, p 28) such as think tanks, NGOs… and use them as proxy structures to further their cause. This third party technique (which can be associated with a lack of transparency and information bias) will be used by corporations to further their agenda while maintaining external consistency when successful. In terms of corporate governance, this kind of maneuvering seeks to extend corporate credibility and influence policy making in a desired direction through lobbying and advocacy. Furthermore, corporate elites are usually skilled at turning threats to their advantage. (Utting, 2000), therefore formal political pressure
could have as a consequence a bargaining process in which the corporation drops a certain behavior / innovation for more of another privilege.

However, when the above measures fail, corporations will have no choice but to comply with centrally imposed measures. In terms of corporate governance changes, a recent and obvious example is the Sarbane-Oxley act which is intended to mitigate accounting frauds.

The very nature of this command group will tend to make it less prone to informal political pressure than the other two. Indeed, by successfully innovating and gaining support from the masses, this command group will tend to be favorably viewed by masses. And if unsuccessful than corporations desiring to be part of this command will fall in the information command group.

However, corporations can fall prey to rivals that aim to tarnish the image of their competitors through negative publicity. In this case corporations can use third party techniques (in advertising or through NGOs) to tame informal political pressure and move opinion in their direction.

**Legal/economic command**

This group is composed of all the actors that seek to maximize economic returns given legal constraints. Its authoritative powers are very strong and it will seldom be contested. It is motivated by purely economic aspects of innovation and seeks efficiency above anything else. As long as innovations are not illegal this command group will tend to adopt them. Internal consistency is very strong due to the search for efficiency, but is tilted towards financial / economic optimization. However, a strong internal focus leads
to little regard for external opinions as long as this is consistent with sustained efficiency. Therefore, this command group does not actively seek status or social recognition.

Law can be defined as “the collection of rules imposed by authority” (http://wordnet.princeton.edu/perl/webwn?s=law). Thus, law defines the limits of tolerable behavior in a society before which the governing body will take action. Under this definition, corporations that follow the legal/economic command will tread on the limits of tolerable behavior as defined by the society in which they operate. This can be the source of several problems. If laws are ill-defined, organizations could unknowingly end up on the wrong side of the law, calling for sanction. And such limit probing behavior can end up attracting undesired attention, such as tighter regulations.

Following a legal command will make corporations less prone to economic pressure. In terms of corporate governance, this group will lead in shareholder value innovation adoptions and face less market pressure to change its ways.

Win-win situations (Utting, 2000), in which the waste of one company is the product for another company can further boost the standing of corporations following this command. In Holland, for example, Shell has started supplying CO2 emitted by its factories to greenhouses in need of it. This reduces the cost of producing CO2 for greenhouses by half in summer while adding to Shell’s revenue and reducing the overall CO2 released in the atmosphere (Staford, 2006). Unfortunately, this kind of situation remains rare but can create a framework for CEOs to actively seek plans that can use their waste as a product for others. Furthermore, win-win situations can prove to solidly underpin corporate strategy but has not been found in many situations.
The legal command reacts similarly to formal political pressure as does the political command. That is, three attitudes exist towards this pressure, pre-emption, negotiation or compliance. As mentioned above, corporations can pre-empt by using third party interventions.

In the case of sustainable development, developing closed-loop and no waste processes, for example, avoids regulatory compliance burdens; regulators expose the firm to additional external pressure (e.g. IP/06/445, Brussels, 04 April 2006, Spain: Commission continues legal action for breaches of environmental law, Press Releases, Commission of the European Communities). However, in an attempt to set regulations that will play against competitors, corporations can also innovate in an anticipated manner and force their innovations on other companies using governments as proxies for promoting their methods. Therefore this pressure can then be turned to the firm's advantage. For example, Shell’s selling of its excess CO2 to greenhouses might prompt legislation whereby corporations should be forced to investigate ways in which waste can be recycled.

Informal political pressure can have the effect of pushing corporations from one command group to another. When brand image, consumer loyalty… are major sources of value for corporations keeping a clean slate is invaluable. As corporations that rely on external factors realize that transparency and social action can lead to increased revenue they will tend to polish their image accordingly. This has been exemplified in the past with corporations such as Nike, Reebok and Addidas, which have joined arms against a tarnished image by becoming members of the Fair Labor Association, which promotes better working conditions in the sweatshop factories around the world.
“The key benefits of CSR are brand value and reputation, improvements in human capital and revenue generation, particularly in large and yet underdeveloped markets”

(UNEP, 2001)

**Ethical/Moral Command**

This group innovates with the intention of maximizing economic returns given moral/ethical constraints. Its authoritative powers are very strong and it will seldom be contested. Also, following an ethical command does not exclude this group from referring to coercive powers. Similarly to the economic/legal command, innovation is motivated by a desire for efficiency. However, efficiency is defined in a wider sense and is not purely economic or financial. Hence the focus of innovation adoption can be social, environmental, philosophical or simply supportive of the moral stance of the innovator. As a consequence, highly profitable innovations will tend to be dropped if in conflict with the beliefs held by the corporation.

This command group will also tend to act firmly within the legal bounds as defined by a society. Furthermore, the moral focus calls for internal consistency as well as a strong external focus. That is, it will abide to its norms and beliefs while also seeking wider support for its actions. In the case of controversial innovation it will tend to initiate debates so as to maintain social cohesion in decision making and allowing for sustained action in a given direction. Further, adhering to an ethical stance might be geographically limited due to different interpretations of ethics and morals the world over. For example, Sharia compliant investments will tend to be accepted only among Muslim investors and
will in turn tend to promote a Muslim way of business. Similarly, shareholder value requires a certain interpretation of corporations to diffuse.

Corporations following the ethical / moral command will tend to be vulnerable to economic pressure. The financial sub-optimality that can, and will tend to, arise from a moral/ethical focus can bring attention from financial optimizers such as corporate raiders or conglomerates. This has been the case with Ben & Jerry’s which has been absorbed by Unilever in 2000. While B&J can be said to fit nicely into Unilever’s portfolio, some changes have occurred since the acquisition. For example, the Social report that B&J released every year since 1999 stopped in 2004. Although Unilever has also adopted the practice of releasing yearly sustainability reports the B&J report was complete and specific to its activities while Unilever’s is more vague to the size and scope of its activities. Hence moving from a branch /acquisition specific to a global reporting system actually leads to a loss of specificity, clarity and a regression in terms of SD innovation. Restructuration along financial lines can lead to a change of command through a change or lack of self-definition.

This command group will tend to be less prone to formal political pressure than the other groups, due to its very stance. The assumed tendency here would be to debate or negotiation with an aim of proving the moral validity of its claim. However, as mentioned previously, ethics and morals are to a certain extent locally defined. Hence, the case of a corporation openly disagreeing with accepted ethics in a given country could end up facing strong political pressure to abide. Wal-mart exemplifies this in an odd way. Recently wal-mart was has been forced to sell the morning after pill. This has been forced
on Wal-mart through law. Hence, even though wal-mart follows openly conservative lines politics can come in the way of ethics not adhered to by the government.

Perceptions of right and wrong can vary tremendously from one person to another. And while there are some (nearly) universally accepted rights and wrongs, there are definitely some that are contested. Religion brings to the fore quite a few of these which can influence corporate governance. The case of Islamic banking, for example, is a departure from the traditional western view. These beliefs of the entanglement of business and religion obviously have implications on corporate governance. Profit sharing, in an ideal Sharia corporation, would lead to a more equitable corporation than in the west. However, corporations that put woman on a par to men could lead to some controversy if a woman director were to lead men in Muslim / Arab countries.

*Information Command*

This group innovates with the intention of maximizing economic returns given knowledge constraints. This group is constrained by environmental uncertainties and is only as good as the quality of its information will let it be. Its authoritative powers are very weak which causes its position to be constantly contested. In terms of innovation adoption this group will tend to lack internal as well as external consistency until it shifts command. A lack of self-definition will tend to cause volatility and irrationality in decision-making and an innovation adoption decision might be a response to a need or simply the creation of a need (that is, the innovation is adopted before having any usage in the firm). This kind of random behavior will cause organizations in this command group to have oscillating behaviors until a sufficient level of internal and/or external consistency is reached.
This command group will tend to be vulnerable to all types of pressure due to its lack of self definition. However, as the firm comes to grip with its aims and starts shifting to another group the pressures will also tend to shift.

**DISCUSSION**

The taxonomy has been able to isolate and position the categories of pressures and commands that underlie corporate governance principles and their diffusion. A historic analysis of corporate governance based on works by Lazonik & O’Sullivan (2000) and Gomez (2001) is suggestive of historic shifts in command groups (See Figure 1) (Lefevre, unpublished). That is, the legal, ideological and economic constraints of the environment will be such that at different epochs there will be more space for firms following either the political or legal command. Indeed, when one observes the tendencies of firms in the sixties and seventies to the tendency of the eighties and nineties, there is a clear shift from a political command to a legal command in the USA. Further, as mentioned previously, the assumption is that the carrying capacity for corporate governance paradigms changes over time. Therefore, as certain views lose momentum in favor of others vacuums are created which could force corporations from one command to another.

Clarke (2004) has evidenced that corporations are prone to excess in expansive phases of business cycles and to be more cautionary during busts so as to avoid regulations. In terms of our framework, this could be a case of moving from a legal to a political command, with all the innovations that ensue. Innovations would shift corporations to an ethical command if the long-term is priviledged over the short-term.
Which does not yet appear to be the case. However, a resource dependency theory combined with a “classical” (Eg Rogers, 1995; Strang & Soule, 1998) approach to the diffusion of innovations suggests that diffusion happens in clusters and will tend to be a sticky / slow process. That is, networks of similar actors will tend to innovate together and reinforce their decisions, but the strongest players in the network will have a disproportionate weight in the adoption decision process. This is can be observed nowadays in corporate networks in which the major MNCs have had a lopsided decision in the adoption of shareholder value and have imposed this on their dependent partners.

Given that SD is content – rich because shared and complemented by a heterogeneous, almost planetary loose community of common interest, it acquires the status of an economic (in the long-term) and symbolic (in the short-term) value that is not subject to political resistance in the short term or economic in the long term since command structures develop an adherence to similar objectives (e.g. EU and UN – led initiatives, or CRS Europe). However, the content – rich aspect of SD means increased complexity in terms of the ideological requirements for its adoption. Therefore, new corporate governance paradigms could lead to sustainable development being an extension to shareholder value (exclusively through win-win situations) or a departure from such a view of the corporation (a redistributive process). In the former case, the unlikely wizening of consumers, increased government intervention and control and social pressures would force corporations into seeking these win-win situations. In the latter case, the corporation would take the lead in making consumers wiser of their choices and take the lead in changing attitudes for a cleaner future.
Much academic work is currently underway that goes in directions opposite to the shareholder value paradigm. Indeed, Prahalad and Goshal among others have criticized the usefulness of a purely shareholder value driven paradigm. Prahalad through his claim that it is inherently crisis driven (11 May 1993; in D. Chew, 1997 p.48) and that the assumption of financial economists are erroneous. And Goshal (2005) by arguing that agency theory has trained a generation of ruthlessly opportunistic managers while the “pretense of knowledge” gives invalid credibility to many models used in business studies. These comments might serve as the basis for changing the way in which future corporate actors will act by changing the norms held by the professional force. However, to be meaningful in the long run, corporations will have to maintain and reinforce beliefs and norms that favor Sustainable development by actively engaging in sense-making.

These bites off shareholder value have been substantiated by movements such as CSR Europe which was in 1995 incepted by the then European Commission President, Jacques Delors, and now leads European companies to help companies integrate corporate social responsibility (CSR). Meaningful contributions from the political community could come and reinforce the ideology building required to bring sustainable development to maturity hand in hand with globalization. Thus the necessity of developing theoretical tools that can lead to an understanding of the diffusion of corporate governance principles.

CLOSING REMARKS
The mathematical simplicity and ideological compatibility of shareholder value with western beliefs have enabled a rapid expansion of this paradigm in the USA accompanied by strong pressure for other countries’ corporations to follow. However, many factors are currently putting a strain on the viability of shareholder value as we know it. We have expanded the motivational aspects of innovation adoption, but are still observing and understanding only the tip of the iceberg… which is melting. Indeed, as noted by Roe “before a nation can produce, it must achieve social peace” (2003, p.1). But rising inequalities, political tensions over resource availability and greed threaten this stability. The risk of a deterioration of the international social fabric and the me-too consumerism that currently dominate the most sustainability-capable economies could distract attention until the iceberg has melted. Hence, the basis of good corporate governance comes from the ability of those governed to understand, influence, and ultimately control the direction enterprises take: The consumers as citizens, employees and managers. And similarly to the way negative behaviors are changed in individuals, an integrated approach to sustainable development will lead to its long-term viability.
This figure illustrates the adoption rate of shareholder value on the lower time line, and the evolution of the environmental tilt on the upper time line. On the lower time line the long dotted line represents Technocratic corporate governance (CG), the black line shareholder value CG and the small dotted line, corporate social responsibility.
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