

Beyond shareholder vs. stakeholder: Hybrid approach may work best

Hybrid corporate governance systems can actually enhance companies performance, say IESE's Roberto García-Castro and Miguel A. Ariño, with Ruth V. Aguilera.

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The common practice of companies aligning themselves with one of two corporate governance models is often not as effective as it may seem.

In their article, "[Bundles of Firm Corporate Governance Practices: A Fuzzy Set Analysis](#)," IESE's [Roberto García-Castro](#) and [Miguel A. Ariño](#), together with Ruth V. Aguilera, argue that hybrid systems, which incorporate practices from both models, can, in fact, produce better results.

Contrasting models

The shareholder-oriented, or outsider, model, followed by countries such as the United Kingdom and the United States, is characterized by: deep stock market capitalization; lax employee protection; weak collective bargaining; and high employee investments in general training.

Top managers are monitored by the market and market-based incentives. Firms typically engage in low levels of commitment toward labor and capital.

Conversely, the stakeholder-oriented, or insider, model, followed by countries such as Germany and Japan, is characterized by: a dominance of bank financing; a dense network of firm collaborations; comprehensive employee protection; strong collective bargaining; and high investment in occupational and firm-specific training.

Under this model, firms tend to be constrained by the claims of multiple stakeholders.

Does one size fit all?

It is evident that these two models contain important differences. The prevailing logic is that firm practices are aligned with each other, as well as with the institutional environment in which they operate.

As such, the more similarity there is between these forces, the more effective the performance.

The authors challenge this reasoning by researching different companies that currently use a mix of both systems. They find that the opposite actually works quite well.

Key corporate governance variables

For comparative analysis, six key variables were identified and combined into different bundles.

Five variables — board independence, board information disclosure, remuneration disclosure, performance-related compensation and employee loyalty — capture company-level systems.

One variable — efficient market for corporate control — captures national systems. For example, the use of the stakeholder model for corporate control varies according to the market efficiencies of, say, Continental European countries versus Anglo-Saxon ones.

The authors applied these variables to a sample of 363 firms from 31 countries operating in different market sectors, measuring firm performance through the return on equity (ROE) ratio.

Different recipes for success

What do high ROE companies have in common?

For one thing, there is no one stock path or necessary condition for achieving high performance. The authors come up with eight possible combinations for success. And the evidence indicates there will be more. They discover that at least two practices are needed to achieve high performance.

Following one system does not necessarily ensure the best returns. In fact, it presents clear

dangers of over-governance, along with high, superfluous costs of layering on more of the same. Firms do not need to be fully lined up with either of the two recognized models.

Results showed that high-performing firms in countries using the insider model have adopted outsider model practices, such as: an independent board; high external information disclosure to investors; and performance-related compensation.

A combination, therefore, works best, allowing some practices to complement others. There are synergies that can arise from employing relatively different practices, such as: board independence and employee loyalty; or between managerial incentives and an efficient market for corporate control.

The possible best combinations of governance practices clearly do not stop at eight. Further research into corporate governance systems can provide a more complete picture why, in the same institutional environment, some firms can adopt practices less aligned to their national model and go on to achieve higher performance, while others do not adapt as well.

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