

GLOBAL ENTERPRISES IN FIELDS OF GOVERNANCE

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Abstract

This paper deals with corporate governance presenting a framework which takes a broader view than is normally done.² In so doing the paper will point to the fact that companies are subject to scrutiny from other actors than *investors*. A first such significant scrutinizer is *governments*. Their role in relation to corporations has in recent decades become particularly examined due to the strong tendencies to deregulate markets. These changes have implied that the legal frameworks have undergone continuous change as a result of globalization, and that the balance of power between different levels of government has shifted. This has had a particular significance for transnational corporations operating in a large number of countries around the globe.

However, in addition to traditional governments it is also appropriate to point to another significant type of scrutinizers, which sometimes has been mentioned the fourth branch of government, i.e. *media*. In modern society they have become increasingly important particularly in terms of business media. The latter has expanded considerably during the last twenty-five years through the foundation of specialized newspapers and magazines as well as through an increasing coverage of business news in the existing channels.

In addition to the three mentioned scrutinizers there has also since long been movements of concerned citizens that are acting outside the formal system of markets, what we may call representatives of *civil society*. These scrutinizers take many forms in terms of organization. However, although protest movements are basically spontaneous and non-hierarchical there appears to be tendency by the passage of time to find more structured forms. Well-known examples of such organisations are Amnesty and Greenpeace with long records of scrutinizing civil rights and environment issues.

The above reasoning implies that studies of corporate governance do not only need to consider the relationships to financial markets but also to governments, media and civil society. These scrutinizers comprise actor groups both nationally and across national borders. They also interact with each other to a considerable extent. Governments, for example, provide the rules for the actions of investors, media and civil society organisations, i.e. rules of trading in financial markets, rules of publication in media and rules for expressing opposition in relation to civil society organisations. In the same way media is scrutinizing investors, governments and civil society organizations.

A significant result of the increasing scrutiny of corporations has been that they have set up various *boundary-spanning units* to handle scrutinizers. These have been created in order to both protect top managers and to help them to communicate their views. These units are handling investor relations, government relations, media

relations and public relations, respectively. They require expertise in the areas of finance, law and politics, journalism and ethics.

Needless to say there are variations in corporations to which extent all these types of boundary-spanning units exist. Some may handle all these external relationships through just one boundary-spanning unit related to top management. No doubt the most common, or at least most visible, boundary-spanning unit of the modern corporation appears to be the one dealing with media relations. In many companies directors of communication are even members of the top management team.

In the interaction between corporations and scrutinizers there is considerable evidence that they use *intermediaries* to a large extent. This is the result of the requirement for new forms of decision-making and action in response to constantly evolving conditions and increasingly intertwined governance relations. In terms of organization the use of intermediaries can be seen as an outsourcing of work from boundary-spanning units or as a substitute for the creation of a boundary-spanning unit.

The intermediaries mediate demands and expectations that are put on corporations, and they interact with corporate executives. When doing so the intermediaries translate interests, demands and expectations, and they translate responses from corporations back to the governing bodies. This gives intermediaries a vital role in corporate governance. Relations with the four governing bodies are, however, reciprocal. As executives perform for the scrutinizers, they may use intermediaries as channels or stages for such performances.

Intermediaries appear to be of two types: (1) organizations from which corporations are buying services, i.e. consultants, and (2) organizations of which corporations are members, i.e. corporate interest organizations. In the first case the relationship is primarily on a project basis and in principle piecemeal, a circumstance that does not exclude the existence of long-term relationships between a corporation and a particular intermediary. In the second case the relationship is primarily general and long-term, i.e. a corporate interest organization is acting on behalf of a body of corporations to deal with the different governing bodies.

The intermediaries perform meditative functions for the executive and it is through the intermediaries that the rationalized images of corporations are largely formed and hence where the legitimacy of the corporation is established. Therefore intermediaries play a significant role in editing rationalized accounts of corporations. The intermediaries also carry knowledge between settings and situations.

With the growth of intermediaries, the channels to govern corporations and the channels for executives to perform relative to the various governing bodies have multiplied. Partly, the enhanced demands and the broadened relations between corporations and the governing bodies could explain the expansion of intermediaries. However, the dynamics of this growth of intermediaries appears to be more complex, and not only dependent on the governing bodies per se. Instead the reverse seems to be partly true: with the expansion of intermediaries, possibilities for developed corporate governance follow.

Introduction

Although global enterprises existed also before the Second World War they grow considerably in importance during the second half of the twentieth century. Labeled multinationals in the 1960s (e.g. Vernon 1977), more recently called global or transnational corporations (e.g. Bartlett and Ghoshal 1989), they have been in focus for intensive research in international business (see e.g. Birkinshaw and Hood 1998, Dunning 2000, Calori, Atamer and Nunes 2000, and Forsgren and Björkman 1997, Johnson 2000, and Magretta 1999). They have been growing organically, but also, to a large extent, through mergers and acquisitions. The events at the turn of the century in the pharmaceutical and telecommunications industries provide significant examples for this development. Many of these global companies now have reached such sizes that their turnover is higher than the GNP of nation states. These circumstances appear to provide them with considerable power in relationship to governments and civil society. However, this does not mean that states are unimportant and can be seen as relics of times gone by. As even one of the most fierce proponent of the new system of world affairs has argued “the ability of the economy to withstand the inevitable ups and downs of the herd depends in large part on the quality of its legal system, financial system and economic management – all matters still under the control of government and bureaucrats” (Friedman 2000, p. 158).

Against the presented background issues of corporate governance have become more and more in focus. However, so far the discussions and the analyses have mainly focused on the investor-management relationships leaving other forces of governance out of the analysis. The present chapter therefore suggests that such an approach implies serious limitations and that wider perspectives should be used. In addition to this widening of the perspectives it will also be argued that corporations increasingly have a tendency to use different types of intermediaries in their interactions with bodies exercising regulative forces. Finally, the chapter presents a field model of corporate governance.

Four Governing Bodies

Corporate Governance through Markets and Politics

In governance markets and politics constitutes a basic distinction (see e.g. Lindblom 1977). In other words: what should be the division of labour between elected politicians and economic actors in markets? This question goes back to classical political debates on the role of the state. In recent decades it has become particularly visible due to strong tendencies for the opening up of markets (see e.g. Yergin and Stanislaw 1998). Deregulation has thus occurred in various markets and has had significant effects particularly in financial markets (see e.g. Khoury 1990, Engwall 1994 and 1997).

On the micro level these thoughts have been reflected in the literature on the theory of the firm. From Ronald Coase’s seminal article in 1937, but particularly from the 1970s and onwards, research has been going on regarding the choice between markets and hierarchies to handle exchange of goods and services. The most significant proponent of this thinking is Oliver Williamson, who in several works has elaborated

a conceptual framework (see Williamson 1975 and 1985). A basic explanation to the development of large enterprises, i.e. hierarchies, in this approach is transaction costs.

Another, more empirically grounded, approach to explain the growth of large corporations is provided by Alfred Chandler (see e.g. 1962, 1977 and 1990), who stresses the significance of economies of scale and scope as explaining factors. Chandler also provides empirical evidence for the spread of the multi-divisional form of organisation as a solution to coordination problems in large organisations.

While Williamson and Chandler provide explanations of the development of hierarchies, the literature on corporate governance deals with the relationships between these hierarchies and financial markets. Some early contributions were Alchian and Demsetz (1972), Fama (1980) and Jensen and Meckling (1976). They were followed by a number of works in the 1990s (see e.g. Blair 1995; Fligstein 1990; Monks and Minow 1995; Keasey, Thompson and Wright 1997, and Roe 1994) and in the present decade (see e.g. Barca and Becht, 2001 and Carlsson, 2001).

In the mentioned literature investors thus play a significant role through financial markets. This does not mean that politics is not important for corporate governance, however. Governments are still significant actors as they always have been. Thus, although we today see more of market solutions (cf. e.g. Strange 1996), governments provide the rules of the game, which in turn by institutionally oriented economic historians has been found to be an important prerequisite for prosperity (cf. e.g. North 1990). Of course, the rules and the tendencies for intervention have changed in the process of marketization (see e.g. cf. Braithwaite and Drahos 2000, Kipping 2002). However, this development has not implied the abandonment of regulation (deregulation) but rather changes in the rules of the game (reregulation).

In relations to corporations governments set the rules for corporate action through executive actions (first branch of government), legislation (second branch of government) and judicial actions (third branch of government) (Siebert et al. 1956). As legal frameworks have undergone continuous change as a result of internationalisation the balance of power between the different levels of government has shifted. In discussions related to the European Union, it has been common to speak about Europe as a multi-level governance system, where national, regional and European levels are interrelated. Regulation by governments has become more differentiated. The levels are definitely not disconnected – European competition policies have, for instance, been copied by national governments – but the expansion in different layers of rule making significantly changes the environments for businesses.

The introduction of governments in corporate governance models may lead to the suggestion to also include in the analysis other groups mentioned as stakeholders in the literature (see e.g. Ackerman and Alstott, 2000; Clarkson 1995 and 1998; Mitchell, Agle and Wood 1997 and Scott and Lane 2000): customers, employees and suppliers. It could be argued that these groups ought to be taken into account, since they play significant roles as buyers of the products and services of the company, and as providers of resources. However, against this can be said that these groups do not play the same role as investors, since they are only involved in the operations and not the strategic governance of the corporation. Investors have delegated the handling of

them to the hired managers. Nevertheless, there are two other additional groups, which have to be taken into consideration in models of corporate governance: the media and civil society.

Corporate Governance through the Media and Civil Society

The media has since long been noted in the political science literature. In addition to the three classical governing bodies mentioned above (the executive, the legislative and the judicial) the press is thus mentioned as a fourth one (Siebert et al. 1956). Due to the expansion of broadcasting and other means of communication it is today reasons to extend the definition of this fourth branch of government to media in a wide sense.

In the last decades the role of media in corporate governance has changed dramatically through a strong expansion of business coverage in media. A recent study by Grafström (2002) of the Swedish development during the last twenty-five years provides evidence regarding this change. In the mid-1970s radio and television did not treat business news as a separate category, while these today devote substantial time to this type of news. The mentioned period has also seen the expansion of a business press, starting with the foundation of the business daily *Dagens industri* in 1976, which has become a great success. It increased its circulation in the 1990s by 56 per cent, at the same time as the total circulation figures for the Swedish daily press declined by 13 per cent (Grafström 2002, pp. 30-31). Similar developments have been seen in many other countries. Internationally the successful expansion of the London based the *Financial Times* is particularly worth mentioning. Rockoff (1999) thus labels this broadsheet as "a truly international newspaper [and] one of the world's most respected business titles" (p. 197).

Of course it can be argued that the media are not always living up to their role as a fourth branch of government, uncritically reporting information provided by corporations, building images of corporate heroes and reinforcing speculative tendencies. One illustrative example of the latter is provided by a study by Hadenius and Söderhjelm (1994), which showed that the business press, and also to a certain extent the general national press, was rather uncritical in the period leading to the Swedish banking crisis. However, there is also evidence that media plays a very significant role in the removal of corporate leaders, something which has been illustrated for instance by the fall of the former corporate hero Percy Barnevik in 2002 (see further Carlsson and Nachemson-Ekwall, 2003). They have also become increasingly significant as scrutinizers of the social responsibility of corporations.

The issue of social responsibility is closely related to the role of *civil society* in corporate governance, i.e. popular movements protesting against the behaviour of large corporations. Some observers, like Strange (1996) and Useem (1984), see these as a response to the retreat by governments in a time of liberalisation of markets.

The governance through civil society takes many forms in terms of organization. However, although protest movements are basically spontaneous and non-hierarchical there is a tendency by the passage of time to find more structured forms. Well-known examples of such organisations are Amnesty and Greenpeace with long records of

scrutinizing civil rights and environment issues. However, there also exist a large number of other organizations all over the globe representing civil society: for instance Earth Island Institute, Institute for Global Communications, JustAct, OneWorld, Oxfam, Rainforest Action Network, and Womankind Worldwide (Warkentin, 2001) to mention a few.

The Four Governing Bodies in Action

Means of Governance

The above reasoning implies that studies of corporate governance do not only need to consider the relationships to investors but also to governments, media and civil society. In terms of investors Hirschman (1970) has suggested that the governance is exercised through two different means: *voice* and *exit*. The first option implies that investors keep their investment and communicate their views on the performance of a corporation in written or oral form either privately or at the annual shareholders' meeting. The exit option on the other hand refers to the alternative when the investors divest shares in the corporation. In both cases the basic norm used to trigger the reaction is poor performance in terms of profitability.

If the described framework is applied to the four above-mentioned governing bodies, we find in Table 1 that the four governing bodies differ in terms of the basic norm for their governing. While investors, as just mentioned, focus on profitability, the basic norm for governments is justice, defined in varying ways over time and space. For media disclosure of information is the motive behind their action and for civil society it is ethics. Needless to say these basic norms may lead to different reactions to corporate behaviour.

[INSERT TABLE 1 HERE!]

As far as voice is concerned we can observe this means of governance for all four of governing bodies (see again Table 1). While investors communicate their views inside the corporation through *deliberation*, governments express their views externally in an authoritative way through *regulation*. In the same way media use *publication* to externally express their voice. Representatives of civil society, finally, use *remonstrations*, in written or oral form and manifestations (rallies, sit-ins, etc.), to show their dissatisfaction with corporate behaviour. All four governing bodies thus use voice although the character differs between them.

The difference between the four governing bodies is even greater as we turn to the exit option. For investors it simply means the divestment of a particular holding. For most investors this is a rather normal action as a response to changes in the trust for a corporation's future. For governments, on the other hand, it is more rare, since it means the expulsion of a corporation from the government's territory as a result of its undesirable activities (see further Engwall and Johanson 1984). For media the exit option is not even applicable, although it may happen that media urge their audience to boycott certain products. The latter is the exit option of organizations representing civil society. Examples are boycotts of products of a particular corporation as long as they produce certain products, or they do it in certain countries (i.e. South Africa during apartheid) or they exploit juveniles in their production.

Actors and Actor Groups

A closer look at the four governing bodies reveals that they are not homogenous, particularly not for multinational corporations. Instead they consist of several different types of actors and actor groups nationally as well as across national borders (Table 2).

[INSERT TABLE 2 ABOUT HERE!]

Among *investors* a fundamental distinction is that between institutional and private ones, the former becoming more and more significant through the development of insurance companies and investment trusts. Owing to their huge capital bases they thus have the capacity to put strong pressures on corporations. However, it is not uncommon that these institutional investors rather vote by using their feet than by using their voice or that they do not take an active part in the governance of the corporations, in which they own stocks (cf. e.g. Davis and Steil, 2001; and Hellman, 2000). In this way the traditional governance mechanism has in some corporations become less strong. This is particularly the case for foreign investors, who take a portfolio management approach with a focus on short-term performance. Nevertheless, corporate directors have tended to express an increasing attention in international financial markets through road shows to various financial centres. A significant feature behind this interest has been the introduction of different types of options programmes, which are linked to the development of share prices (cf. e.g. Carpenter and Yermach 1999).

In terms of *governments*, national ministries and government agencies constitute important domestic governing bodies. Among them units such as the Inspection of Finance and agencies for competition and consumer protection, play significant roles both in determining the political rules of the game and controlling the fulfilling of these rules. Among actors in the government area should also be counted individual ministers and politicians, who from time to time give their views on corporate behaviour. In the last few years this has particularly been the case with respect to executive compensation.³

Across borders it is relevant to point out different UN agencies such as FAO, UNESCO and UNCTAD, and others like OECD and the World Bank. Similarly, on the European scene the different European Union Directorates and agencies have become highly relevant for corporate governance. Often mentioned in recent years have been the anti-trust measures taken by the Commission putting an end to merger plans. Two examples are the intended merger between General Electric and Honeywell in 2000 and the intended take-over of the French Legrand of Schneider (Carlsson and Nachemson-Ekwall, 2003, p. 111). The European Commission rejected both with reference to antitrust arguments.⁴

In times of globalisation and growth of multinationals the question of jurisdiction of governments has become particularly relevant. There are thus risks that multinationals chose to locate different kinds of operations according to the advantages of various regulations. This in turn may become an element in the competition between areas for employment, which eventually may lead to an adoption of the least common dominator.

Among *media* it is relevant to make a distinction, not only between national and cross-border media, but also between broadcasted and printed media. The former is growing in importance, although newspapers still have a strong position, particularly in some countries like Sweden. However, the growth of broadcasted media has no doubt been significant for corporate governance, since radio and TV is more rapid in reporting and particularly because they require CEOs to perform live. The earlier opportunities to check manuscripts of articles and to suggest changes is not there, which in turn has led to a strong need for improving the ability to handle reporters. Although, the last decades have implied a considerable internationalisation these confrontations are often most intense and aggressive in the domestic country of a company.

Among organisations representing *civil society* there are particularly two issues which have attracted the attention of concerned citizens: human rights and the environment. In the first group Amnesty, with activities in many countries, is probably the best known (cf. e.g. Clark, 2001; Gibney, 2003 and Power, 2001). Greenpeace has a similar strong status among environmentalists (cf. e.g. Bohlen, 2001 and Jordan, 2001). In addition, there are also a number of national organisations to protect human rights, the environment and other issues.

Corporate Governance in Interaction

It should be noted that the four governing bodies do not operate in isolation. Instead they interact and put pressures not only on corporations but also on each other. Governments, media and civil society thus together put continuous pressures on investors in order to have them behave in certain ways. Governments provide the rules for the actions of investors, media and civil society organisations, i.e. rules of trading in financial markets, rules of publication in media and rules for expressing opposition in relation to civil society organisations. Similarly, the media is not only governing corporations but also investors, governments and civil society organizations. In addition they provide information for these government bodies as well as platforms for communication.

However, it is not enough to establish that the four governing bodies put pressures on each other and on corporations. It is also very important to point out that corporate governance is not a one-way street from governing bodies to corporations, i.e. that corporations only are *reactive* to signals from the governing bodies. Corporate governance also implies that corporations are *proactive*, i.e. that they express their voice in relation to governing bodies. The purpose of such voice expressions is to either communicate a preferred view of the performance of the corporation (*presentation*) or to influence the rules of the game through lobbying (*persuasion*).

In terms of *presentation* it has become a very significant feature of modern society (cf. e.g. Ginzler et al. 1993 and Nadler et al. 1998). It is thus not necessary to refer to social constructivism (Berger and Luckmann 1966) to observe the increasing efforts of all organizations to present themselves in a favourable light. Examples are manifold how investors are told about the good financial performance and good prospects of corporations, governments and civil society organizations are assured of their high standards of social responsibility, while media is fed with all sorts of positive information. There are of course limits to the positive pictures that can be

delivered, however. Quoted companies are requested to provide quarterly reports, even if they are not positive. In addition they are requested to communicate information about negative profit trends as soon as they are known. All in all, the communication between corporations and the governing bodies constitutes a complicated process, through which the interests clearly differ.

Persuasion is normally directed towards key figures in governments. These lobbying activities have a long tradition in the United States and have more recently become a significant feature within the European Union (cf. Mazey and Richardson 1993; Greenwood 1997 and Greenwood and Aspinwall 1998). Large corporations therefore to an increasing extent have chosen to have representation of their interests in Brussels. Persuasion efforts can of course also go through other governing bodies, particularly media. In this instance it is not the performance or the good prospects of the corporation that is communicated, but instead the need to change rules in a direction that is favourable to the whole industry.

Finally, it should also be noted that corporations also threaten to use and use the exit option in their relationship with the governing bodies. In their relationship to governments this is manifested through the movement of production (i.e. the movements of jobs from one country to another) but also through threats or the actual movement of central administrative functions abroad (cf. e.g. the plans, both realized and non-realized, of Swedish MNFs to move corporate headquarters to London).

While exit options of corporations with respect to investors and civil society are not applicable, they are so in relation to media. It can take two routes. One is to blacklist reporters from a particular media company. The other is to threaten to stop or to stop advertising. In both cases the logic behind is negative reporting on the corporation.

Internal Corporate Response to Corporate Governance

As pointed out above the basic problem in the traditional literature on corporate governance is constituted by the relationship between the owner (the principal) and the manager (the agent). The main issue concerns the monitoring of the agent so that he/she acts in the full interest of the principal. This literature does not focus particularly on the organizational arrangements in corporations to handle the relationship to the owner. However, evidence from modern corporations show that – particularly those with many investors in various geographical markets - have created special organizational units for their investor relations (cf. e.g. Edenhammar et al. 2001). Similar arrangements can be observed for the three other governing bodies mentioned above.

An appropriate term for the mentioned units is *boundary-spanning units*. It is a concept that was introduced by James Thompson in the late 1960s in the classical book *Organizations in Action* (1967). A basic idea in that monograph is that uncertainty constitutes a fundamental problem for organizations. Therefore, under norms of rationality, organizations are likely to protect the technical core from upcoming uncertainties. One means to attain such protection is constituted by the creation of boundary-spanning units in order to handle uncertain external relationships. The basic problem for such units is therefore according to Thompson (1967, p. 67) “not coordination (of variables under control) but *adjustment* to

constraints and contingencies not controlled by the organization – to what the economist calls exogenous variables”.

Thompson does not deal with the corporate governance problem we are focussing here but primarily on units more directly involved in the production of services. As examples he thus mentions sales units for the business firm, interviewers for the employment agency, tellers for the bank, classroom instructors for the school or university, caseworkers for the welfare agency or purchasing agents (Thompson 1967, p. 96). However, the concept appears as appropriate for the corporate governance problem. Although, not directly protecting the basic task of the firm, the boundary-spanning units we are discussing here are created in order to protect the work of top managers. The need for such boundary-spanning units has been underlined by a number of studies of executive behaviour. Already in 1951 Sune Carlson showed in a classical study of a dozen of executives that their working days were characterised by a large number of very short episodes. His results is therefore often referred to by quoting his own change of views through the study (Carlson 1991/1951, p. 46):

Before we made the study, I always thought of a chief executive as the conductor of an orchestra, standing aloof on his platform. Now I am in some respects inclined to see him as the puppet in a puppet-show with hundreds of people pulling the strings and forcing him to act in one way or another.

Studies by Stewart (1967), Mintzberg (1973) and Kotter (1982) later on corroborated Carlson’s findings. However, a more recent study by Tengblad (2002) indicates that modern managers have a somewhat different working situation:

The frequency of interruptions was consequently less than half that recorded in Carlson's study. The corridor outside the CEO's office was generally quiet, and only his immediate subordinates made any spontaneous visits. The picture of the constantly interrupted top manager thus gains no support from the new study.

A probable explanation to this change is that the above-mentioned organizational units protect present-day top managers from continuous disturbances. Such an explanation is also consistent with the idea of organizations acting upon upcoming problems like a fire brigade (Cyert and March 1963) and in this way creating solutions to more permanent problems.⁵

The concept of boundary-spanning units can also be related to the concept of gatekeepers in studies of communication. In media companies these actors are according to a concept coined by Kurt Lewin (1947) mostly used for persons who are controlling the incoming information, i.e. who makes decisions on news selection. Similarly, the concept has been used in studies of laboratories (Allen and Cohen 1969) and in studies of organizational decision-making (Pettigrew 1973).

As shown above both Thompson (1967) and the studies of gatekeepers primarily focus on the role of the boundary-spanning units to filter information going into the organisation. However, boundary-spanning units are also used for presentation and persuasion (see above), i.e. to present the corporation in a favourable way and to influence the rules of performance set up by the four governance bodies as well as their future behaviour.

Many large corporations have created boundary-spanning units to handle each of the four governing bodies. They are units handling investor relations, government relations, media relations and public relations, respectively. These in turn require expertise in the areas of finance, law and politics, journalism and ethics.

Needless to say there are variations in corporations to which extent all these types of boundary-spanning units exist. Some corporations may handle all these external relationships through just one boundary-spanning unit related to top management. In any case, the most common, or at least most visible, boundary-spanning unit of the modern corporation appears to be the one dealing with media relations. In many companies directors of communication are even members of the top management team.⁶

Boundary spanning units are not only created in corporations, however. The same is also true for many other types of organizations like the governing bodies. Press officers and units of media relations are thus today standard in ministries, government agencies and political parties as well as among institutional investors and popular movements. In this way boundary spanning units of various kinds in corporations and governing bodies participate in an interplay of corporate governance.

The fact that the boundary-spanning units require expertise in the area of focus for the four governing bodies has implied an increasing incidence of a phenomenon that the French call “*pantouflage*”, i.e. that actors move between public service and corporations.⁷ This means that earlier employees of investment companies, governments, media companies, and even popular movements tend to be hired by corporations in order to deal with their earlier colleagues. As a result networks of relationships between actors in boundary-spanning units and in the four governing bodies are created. Such relationships are to the advantage of corporations for two reasons. First, the former employees of the governing bodies have the expertise of their former field of employment and therefore know how their former colleagues reason and work. Second, they are connected to significant actors of the four fields of governance. This makes it easier for their own initiatives for external contacts as well as for actors of governance to contact the corporation.

External Corporate Response to Corporate Governance

Intermediaries

Our earlier research (see e.g. Engwall et al. 2001) has shown that corporations to a large extent make use of *intermediaries* in handling the four governing bodies. This is the result of the requirement for new forms of decision-making and action in response to constantly evolving conditions and increasingly intertwined governance relations. In terms of organization the use of intermediaries can be seen as an outsourcing of work from boundary-spanning units or as a substitute for the creation of a boundary-spanning unit.

The intermediaries mediate demands and expectations that are put on corporations, and they interact with corporate executives. When doing so the intermediaries translate interests, demands and expectations, and they translate responses from

corporations back to the governing bodies (see further Czarniawska and Sevón 1996). This gives intermediaries a vital role in corporate governance. Relations with the four governing bodies are reciprocal, however. As executives perform for the governors, they may use intermediaries as channels or stages for such performances.

Two types of intermediaries can be distinguished: (1) organizations from which corporations are buying services, i.e. consultant organizations, and (2) organizations of which corporations are members, i.e. corporate interest organizations. In the first case the relationship is primarily on a project basis and in principle piecemeal, a circumstance that does not exclude the existence of long-term relationships between a corporation and a particular intermediary. In the second case the relationship is primarily general and long-term, i.e. a corporate interest organization is acting on behalf of a body of corporations to deal with the different governing bodies.

Consultants

The consultancy industry has experienced a considerable expansion during the last decades (see e.g. Ashford 1998, Kipping and Engwall 2002, Micklethwait and Wooldrige 1996, O'Shea and Madigan 1997 and, Sahlin-Andersson and Engwall 2002). Among the actors in this industry, the consultancy arms of the large Anglo-American accountancies have particularly expanded their activities significantly. They now offer a wide range of different services, including advice on regulatory and legal issues to both private and public organizations (cf. Suddaby and Greenwood 2002). As pointed out by Dezalay (1993) this may mean that the activities of the consultants have a double-dealing nature. In terms of corporate governance this circumstance further underscores its complex nature.

In the same way as global companies have developed, a globalization is also taking place among consultancies. In order to be able to provide their clients with relevant services both in many different countries and of several different types, consultants have internationalized and grown in size (Wallerstedt, 2002). Nowadays, globalization discriminates against nationally based intermediaries and intermediating structures and naturally favors internationally operating intermediaries (Streeck 1997). In many cases this is accompanied by the substitution of non-commercial, quasi-public mediation by commercially oriented intermediaries. One very prominent example of this development is the mergers and acquisitions occurring in the auditing industry. Until recently a group of companies mentioned as "The Big Five" (Arthur Andersen, Deloitte Touche Tohmatsu, Ernst & Young, KPMG, and PriceWaterhouseCoopers) dominated it. After the Enron scandal in the United States the concentration process continues as competitors have acquired different parts of Arthur Andersen (Squires, 2003)

Other significant intermediaries are of course the big management consulting companies such as Accenture, IBM Business Consulting, Cap Gemini Ernst & Young, McKinsey and Boston Consulting Group. However, there are also a number of consultants specializing in media relations, public relations and investor relations. Among the latter investment banks play a particularly significant role, but also rating agencies, such as Moody's and Standard and Poor perform important intermediary functions in relations between businesses and investors.

Corporate Interest Organizations

One important way to handle the interests of a corporation is to be member of a corporate interest organization. These are in modern society numerous. At the turn of the century there were around 30,000 international organizations, of which more than 80 per cent were non-governmental organizations (Yearbook of International Organizations 2001/2002). According to Boli and Thomas (1999, p. 42) the largest group among these around 25,000 organizations was organizations oriented towards industry and trade.

These corporate interest organizations have come to play an increasing importance as intermediaries between companies and regulators at local, regional, national, European, and world levels. Although, some major transnational firms develop their own relationships with the national governments and the European Commission, many work, as before, through industry or employers associations (on a national and a European level). Particularly, there are lots of organizations in specific sectors that influence decision-making processes concerning these sectors. In standardization organizations – like CEN, CENELEC and ETSI – rules are sometimes produced in close relations between government officials and representatives of businesses and industries (see Brunsson and Jacobsson, 2000). Other significant non-government organizations through which executives have sought to influence governmental decision-making and collaborations are business executive organizations such as ICC (International Chamber of Commerce) and ERT (European Roundtable of Industrialists). The latter has had a major influence on the creation and the shaping of the single market program (Green Cowles 1995), but also on infrastructure projects at least in the Northern parts of Europe. In addition, an organization called the Transatlantic Business Dialogue (TABD), which constitutes a business-to-business dialogue across the Atlantic, has been significant for instance in the world trade negotiations (Green Cowles 2001).

Corporate interest organizations thus play significant roles in the formation of regulation as partners in discussions and negotiations. In addition they are important as providers of alternatives to government intervention through various kinds of codes of conduct, i.e. self-regulation instead of government regulation. In the formation of these codes corporate governance is to a considerable a negotiation between corporations with differing interests.

The Role of Intermediaries

Key roles of the intermediaries is to form the rationalized images of corporations and hence to establish their legitimacy (cf. Meyer and Rowan 1977). Therefore intermediaries play a significant role in editing rationalized accounts of corporations. The intermediaries also carry knowledge between settings and situations (Engwall et al. 2001, Sahlin-Andersson and Engwall 2002).

With the growth of intermediaries, the channels to govern corporations and the channels for executives to perform relative to the various governing bodies have multiplied. Partly, the enhanced demands and the broadened relations between corporations and the governing bodies could explain the expansion of intermediaries. However, the dynamics of this growth of intermediaries appears to be more complex,

and not only dependent on the governing bodies per se. Instead the reverse seems to be partly true: with the expansion of intermediaries, possibilities for developed corporate governance follow.

The Modern Governance of Corporations

The above reasoning implies that in the governance of modern corporations, particularly transnational ones, executives are facing four significant governing bodies: investors, governments, media and social society (Figure 1). In dealing with these they tend to use both internal units (boundary spanning units) and various kinds of intermediaries (consultancies and corporate interest organizations).

[INSERT FIGURE 1 ABOUT HERE!]

As illustrated by the figure, interactions between executives and governing bodies can take many different forms. They can be handled by using both boundary spanning units and intermediaries, only using one of these types of organizations or even directly with the governing bodies. We can thus identify three fundamental types of interaction between executives and governing bodies:

1. *Double-buffered contacts*, i.e. CEOs going through both boundary-spanning units *and* intermediaries.
2. *Single buffered contacts*, i.e. CEOs going through either intermediaries *or* boundary-spanning units.
3. *Direct contacts*, i.e. CEOs talking to or performing for top politicians, editors, representatives of NGO or institutional investors.

In addition, it should be noted that there are a large number of interactions between the different actor groups. The four types of governing bodies thus have a number of such reciprocal contacts. Governments, media and civil society, scrutinize investors. At the same time the latter feed information of their own interest to the other three types of governing bodies. Similarly, media is scrutinizing the other three governors, report on their behaviour and sometimes pass on information. Furthermore, intermediaries may interact between themselves and with governing bodies.

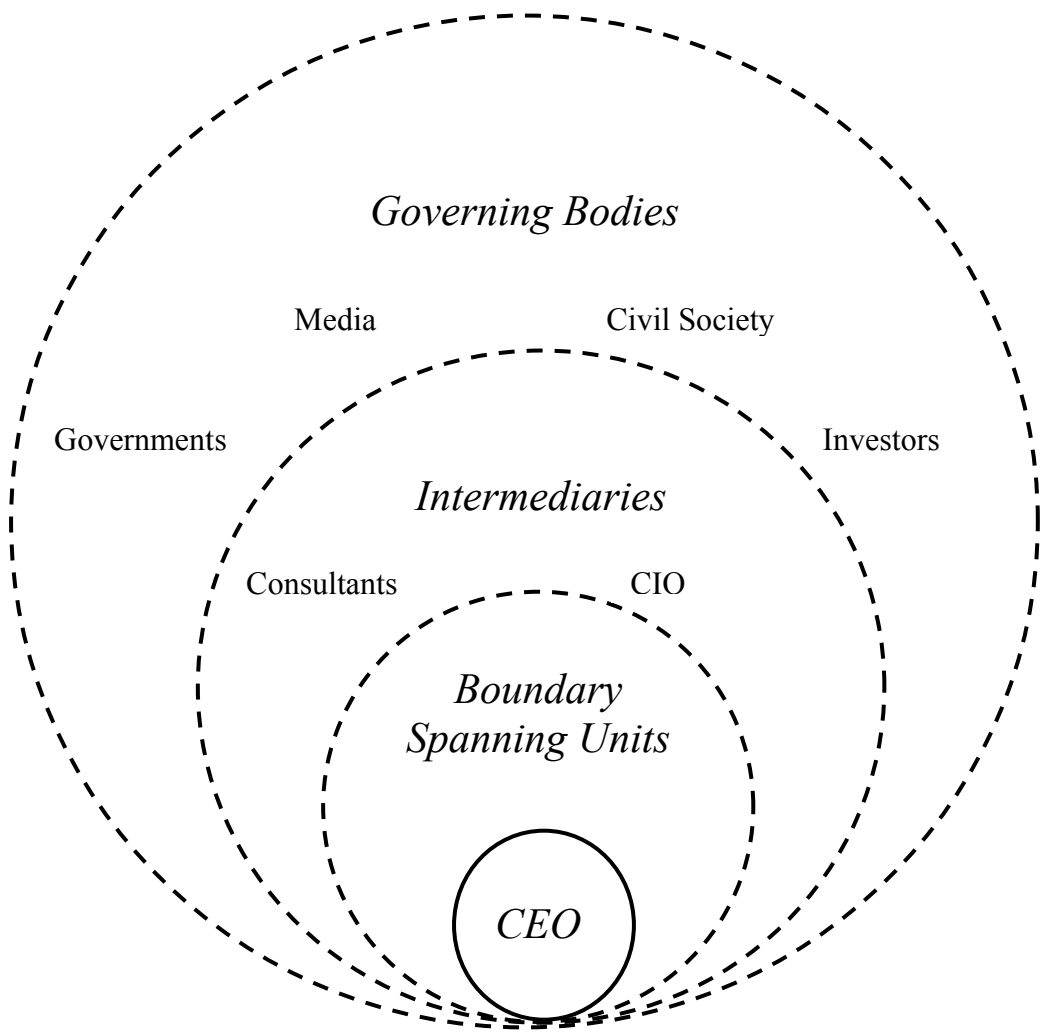
All in all, we have thus found the governance of corporations to be a rather complex interaction between various actors and actor groups. This is the result of the argument that the analysis of corporate governance, particularly that of transnationals, has to take a much wider perspective than is normally done in the literature. This approach implies that corporate governance is not seen as an interaction between just two actor groups, but as processes in fields of governance. In these processes the different governing bodies in many instances have similar interests in their relationships to executives, i.e. to guarantee the long-term performance of the corporation. For instance, had it been to the advantage of investors if the other three governing bodies had blown the whistle earlier in relation to the upcoming problems of ABB and Enron. In the former case some would even argue that it had been preferable to Asea investors, if the merger with Brown Boveri had never taken place (see Carlsson and Nachemson-Ekwall (2003). Similarly, the stopping by the European Union of the above mentioned merger plans might very well have been to the advantage of investor. Although, this is contrafactual reasoning it underscores the significance of critical examination of executive actions in multinational corporations - but also national ones for that matter – in order to secure that executives are not primarily

working for their own prestige and well-being. In this way corporations will benefit from the same type of healthy scrutiny that is a fundamental feature of scientific work.

In addition to pointing the need to consider more governing bodies than investors, the chapter has also called attention to the use of executives in their interaction with governing bodies of boundary spanning units and intermediaries. In that context it is important to point out that executives are not only reactive – i.e. react to signals from governing bodies – but also proactive – i.e. communicate their preferred views to outsiders through presentation and persuasion.

The presented approach of course provides a much more complicated picture of corporate governance than the existing literature. Instead of looking upon the problem as an issue between principles and agents, it emphasizes the need to consider the rules of the game, not only in terms of formal regulation determined by governments but also through informal rules voiced by the media and civil society. This is particularly important in times of globalization and the growth of multinationals operating across many different national borders. Needless to say, the presented approach provides numerous interesting opportunities for further research.⁸

Figure 1. *Governing Bodies, Intermediaries, Boundary Spanning Units and Executives.*



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³ A Swedish example is the strong critical remarks from the Minister of Culture, Marita Ulvskog, regarding the compensation of the Astra CEO Håkan Mogren. From strict corporate governance point of view this an issue for investors only. The debate that followed clearly demonstrated that also the views of non-investors are important in present-day society.

⁴ Two Swedish examples are the rejected merger plans between the two Swedish truck manufacturers Scania and Volvo, and the two Swedish banks Förenings Sparbanken and SE-banken.

⁵ It should be noted that Tengblad (2002) found that the modern executives instead of a fragmentation in time had an increased fragmentation in space. He also noted “the expansion of space has been accompanied by a change in stakeholder relations, in particular away from nationally oriented stakeholders such as governmental agencies and trade associations and towards a more dispersed pattern in which financial market actors have risen to greater prominence”.

⁶ For a study of the handling of corporate communications, see Pallas (2004).

⁷⁷⁷ Cf. *Le Nouveau Petit Robert* (1994): **pantoufler** [...] **2.** (1880) MOD. Quitter le service de l’État pour entrer dans une entreprise privée [...] N.m. PANTOUFLAGE” and *Lexis*(1975): ”Pour un haut fonctionnaire, quitter le service de l’État pour le privé”.

⁸ An effort in this direction is the GEMS programme, which is a collaboration between Södertörn University College and Uppsala University. See further www.fek.uu.se/gems.