THEORIZING CORPORATE GOVERNANCE: NEW ORGANIZATIONAL ALTERNATIVES

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Abstract
In this paper I contrast ‘economic’ and ‘organizational’ approaches to corporate governance, in order to draw out some of their distinctive features and discuss their relative strengths and weaknesses. I identify some promising areas of new research which examine the role of social controls and trust for the way that companies are governed. Although these are fairly embryonic, I argue that they call into question the hegemony of economic theories in theorizing the governance of the corporation. I conclude by advocating a re-consideration and broadening of the current conceptual scope of corporate governance, so as to facilitate and encourage other potentially valuable ways of exploring and understanding how companies are governed.

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Introduction

Anglo-American economic theories of the firm have come to dominate scholarly and institutional approaches to corporate governance across the world, in spite of criticisms of many of their underlying assumptions and propositions. For example, they tend to see the firm principally in contractual terms, are guided by the assumption of utility-maximizing self-interested human behaviour, and tend to posit the protection of investors' capital as the 'corporate governance problem'. Whilst these might be justifiable at the level of market analysis, they are more difficult to defend for corporate governance research where the object of attention is the firm itself. Some 'organizational approaches' (for want of a better term) to corporate governance have been proposed as a counter to economic theories, which by contrast tend to begin with a more complex concept of the firm, allow for other-oriented behaviour, and can conceive the governance of companies as routinely involving multiple relationships. However, these tend to be either poorly developed theoretically, or are relatively embryonic. In what follows I want to contrast these 'economic' and 'organizational' approaches to corporate governance in more detail, drawing out some of their distinctive features and discussing their relative strengths and weaknesses. I do not want to impugn the value of economic theories, but do question their pre-eminence in the field of corporate governance research. In particular, I argue that some recent research in the organizational literature which examines the role of social controls and trust for the way that companies are governed, suggests that the current conceptual scope of corporate governance could usefully be re-considered and broadened.

'Economic Approaches' to Corporate Governance

Berle and Means (1932) are often credited as the forefathers of contemporary thinking about corporate governance. They argued that in the earliest days of American industrialization, companies, which were organized to deal with major projects such as the construction of railways and canals, tended to be private institutions, and were administered by their founders on the basis that they were their own private property. The growth of professional managers at the top of increasingly large organizations, along with the dispersion of shareholding away from exclusive founding family interests together came to effect a growing separation of ownership and effective control:

The separation of ownership from control produces a condition where the interests of owner and ultimate manager may, and often do, diverge, and where many of the checks which formerly operated to limit the use of power disappear. (Berle and Means 1932: 6-7)

Their ideas are often seen in turn as a development of the much earlier views of Adam Smith:

The directors of such (joint-stock) companies, however, being the managers rather of other people's money than of their own, it cannot well be expected, that they should watch over it with the same anxious vigilance with which the partners in a private copartnery frequently watch over their own. Like the stewards of a rich man, they are apt to consider attention to small matters as not for their master's honour, and very easily give themselves a dispensation from having it. Negligence and profusion, therefore, must always prevail, more or less, in the management of the affairs of such a company. (Smith 1776: Book 5, Chapter 1)

The legitimate exercise of power within this owner/control dichotomy became a central element of managerialism, which dominated research on the firm until the 1970s (Chandler 1962; Bratton 1989). The direct influence of these ideas is still felt today, especially amongst practitioners and policymakers who typically discuss shareholders as company owners, and corporate governance as an issue primarily concerning the separation of ownership and control.

In the 1970s, however, new economic theories of the firm emerged to challenge the pre-eminence of managerialism. Arguably the most influential of these for the contemporary understanding of corporate governance is 'agency theory'. This emerged from the publication of

Alchian & Demsetz's (1972) seminal paper *Production, Information Costs and Economic Organisation* and Jensen & Meckling's (1976) paper *Theory of the Firm: managerial behavior, agency costs and ownership structure*, which introduced the idea of the firm as a nexus of contracts amongst individual factors of production. Previously, classical economics had conceived the firm as a single-product entity with a commitment to the maximization of profits, and what went on within the firm was considered to be of subordinate interest to what went on in markets. It was argued that with this new theory, economics was for the first time able to analyze the firm itself; the neo-classical view was able to incorporate the workings of the firm into economic theory by explaining it as a constantly re-negotiated contract, contrived by an aggregation of individuals each with the aim of maximizing their own utility.

In this theory, the 'corporate governance problem' is not concerned with the separation of *ownership* and control. Shareholders are afforded a pre-eminent position in the firm, but this is legitimized not by the idea that they are the firm's owners, but instead are its 'residual risk takers' (Alchian and Demsetz 1972). The argument in its basic form is that when production is undertaken by a team, which can be more efficient than individual production, it is difficult to determine exactly who is responsible for what part of the joint effort. As such, individuals have an opportunity to 'shirk'. In order to prevent shirking, a 'monitor' is required: the monitor is able to make contracts with all the other parties and pay them according to their opportunity cost, and in return for monitoring the team is entitled to claim the residual value created, which incentivizes the monitor not to shirk herself. In the public company, it is generally assumed that it is the shareholders who have the most at risk, with all other parties benefiting from (reasonably) complete contracts. As a consequence it is the shareholders who have most to lose if the company fails, and most to gain from effective monitoring of the other company participants. Fama (1980) makes the point about the irrelevance of 'ownership' explicitly:

... ownership of capital should not be confused with ownership of the firm. Each factor in a firm is owned by somebody. The firm is just the set of contracts covering the way inputs are joined to create outputs and the way receipts from outputs are shared among inputs. In this 'nexus of contracts' perspective, ownership of the firm is an irrelevant concept. (p.290)

Given the assumption of self-interested utility-maximizing motivation of individual actors, it is assumed that the relationship between shareholders ('principals') and managers ('agents') is problematic: how is the 'principal' able to prevent the 'agent' from maximizing his own utility (Jensen 1994)? For agency theorists efficient markets are the solution; consequently the main focus of their approach to corporate governance is the elaboration and facilitation of market mechanisms that can mitigate this agency problem. These include an efficient market for corporate control, for management labour, for corporate information and so on, all of which will ensure management bears the costs of its own misconduct and will therefore create the incentives for self-control.

Further to this neo-classical conceptualization, the idea of firm as contract has at the same time been developed in a different form by new institutional economists. Whereas neo-classical economics sees the market as the only way to organize efficient contracting, and the firm is seen simply as an artefact of constantly re-negotiated contracts, new institutional economics conceives the firm to be a discrete, relatively permanent hierarchy which exists as an alternative to contracting in markets. Like neo-classical economics, new institutional economics is concerned with ensuring the efficiency of private contracting, but rather than concentrating on the maximization of profit, the focus of study is generally perceived to be the minimization of transaction costs. This notion was originally put forward by Coase (1937), but has been developed in particular by Williamson (1979, 1985).

In so far as corporate governance is concerned, new institutional economics differs from agency theory in that the governance problems of firms are perceived to proceed from a number of contractual hazards, including self-interested opportunism, informational asymmetries, asset specificity and small numbers bargaining, and the problem of bounded rationality (Williamson 1984, 1985). The approach is concerned with discovering internal measures and mechanisms which reduce the costs associated with these contractual hazards to an efficient level: the external discipline of the market cannot be relied on to mitigate these problems, as it has 'limited constitutional powers to conduct audits and has limited access to the firm's incentive and resource allocation machinery' (Williamson 1975: 143). Like neo-classical economics though, the locus of attention remains the shareholder - manager relationship, although in this case it is because shareholders are perceived to 'face a diffuse but significant risk of expropriation because the assets in question are numerous and ill-defined, and cannot be protected in a well-focused, transaction-specific way' (Williamson 1984: 1210).

Notwithstanding their inherently distinctive conceptualizations of the 'governance problem', the different theories discussed thus far have helped to reify the firm as an economic mechanism, and institutionalize the idea that corporate governance is primarily concerned with the control of managers by shareholders. The pre-eminence of such a view has been re-inforced by the recent spectacular increase in the concentration of shareholdings in the hands of large institutional investors. Over the past three decades, holdings of shares by insurance companies and pension funds have grown considerably at the expense of holdings by individuals in many developed economies. For example, institutional investors accounted for 47.1% by value of UK ordinary shares at the end of 2000, while individuals held just 16% of the total. In 1969 the figures were almost the reverse, with institutions accounting for 21.2% of shares and individuals for 47.4% (Hill and Duffield 2001). It is widely argued that this new concentration of shareholdings means that institutional investors are consequently in a good position to actualize their theoretical corporate governance role as company ‘principals’ or ‘owners’ (depending on the particular theory subscribed to). Formerly, individual shareholders were too numerous and too widely dispersed to exert adequate corporate control, but increasingly powerful institutional investors now have both the ability and the incentive to monitor and discipline company managers (Black 1992; Maug 1998).

In sum, ‘corporate governance’ is now widely conceived to centre on a single problem, namely how the owners of capital are able to protect their investments:

... corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment. How do the suppliers of finance get managers to return some of the profits to them? How do they make sure that managers do not steal the capital they supply or invest it in bad projects? How do suppliers of finance control managers? (Shleifer and Vishny 1997: 737)

Not only does this view pre-dominate amongst researchers, but also practitioners (Monks 2001) and policymakers (OECD 1998, G7 1999). For example the World Bank, which along with many other international bodies is actively promoting global standards of corporate governance, claims in a recent report:

What makes corporate governance necessary? Put simply, the interests of those who have effective control over a firm can differ from the interests of those who supply the firm with external finance. The problem, commonly referred to as the principal-agent problem, grows out of the separation of ownership and control and of insiders and outsiders. In the absence of the protections that good governance supplies, asymmetries of information and difficulties of monitoring mean that capital providers who lack control over the corporation will find it risky and costly to protect themselves from the opportunistic behavior of managers or controlling shareholders. (World Bank 1999)

Critiques of Economic Approaches

The ideas of economists have undoubtedly provided numerous insights into the workings of the firm, and have enriched our understanding of some of the dynamics of organizational behaviour; for example they remind us that there is lots of self-interested behaviour in organizational life (Perrow 1986), and they have helped researchers think about risk, outcome uncertainty, incentives and information systems (Eisenhardt 1989). However their pre-eminence also means that alternative views about corporate governance are arguably not given the consideration they warrant, and critiques of the descriptive and normative validity of economic theories, which call into question their relevance for the understanding of corporate governance, are glossed over.

For example, the simplifying assumptions that most economic theories of the firm make have been widely criticized, especially by organizational researchers whose work shows that organizations are characterized by imperfect information, inefficiencies, multiplex incentives and contextual influences (Perrow 1986). Eisenhardt, a staunch defender of agency theory, concedes that:

Agency theory presents a partial view of the world that, although it is valid, also ignores a good bit of the complexity of organizations. Additional perspectives can help capture the greater complexity. (1989: 71).

As for transaction costs economics, the limitations of its original simple dichotomization of markets and hierarchies has long been acknowledged. For example ‘intermediate’ modes of governance have been put forward (Williamson 1991), and the theory has been refined by Hart and Moore (1990) who develop their view of the firm as a collection of jointly-owned physical assets, and more recently by Rajan and Zingales (1998) who propose the firm as a nexus of specific investments which cannot be replicated by the market. There has also been a slow but gradual acceptance amongst transaction costs economics that socially embedded personal relationships play an important role in economic exchange (Zaheer and Venkatraman 1995).

Some, however, suggest that the refinement of contractual theories of the firm is inadequate, as many of their fundamental assumptions are so inaccurate that they discredit the entire approach. For example Moran & Ghoshal (1996) strongly criticize Williamson's (1975, 1985) pessimistic assumptions about organizations as well as human behaviour and motivation:

[Economic] theories of today are dominated by a profoundly pessimistic view of organizations, concerned far more about the unintended consequences of organizing than about organizing for their intended purpose, and by an even more skeptical view of individual-organization interactions, grounded in the assumption that the human role in organizations is largely passive and frequently pathological... the all-pervasive concern for shirking, opportunism, and inertia in organizational economics (Moran and Ghoshal 1996: 70).

Moreover the normative implications of economic theories are perceived to be especially dangerous: Ghoshal and Moran (1996) criticize the fact that these theories create the conditions which encourage the type of behaviour they assume:

Social sciences carry a special responsibility because of the process of the double hermeneutic: its theories affect the agents who are its subject matter. By assuming the worst, this theory can bring out the worst in economic behavior. By assuming opportunism and establishing it as his base case, Williamson is blind to forces that work to confirm or discredit the validity of his assumptions ... In the process, his theory is likely to encourage the very behavior that it takes for granted and seeks so hard to control. (p.39)

In terms of their specific relevance for analyses of corporate governance, a number of other criticisms have been levelled against mainstream economic approaches. For example, O'Sullivan (2000) makes an important point in criticizing their failure to incorporate a systematic analysis of innovation or production in their conceptual frameworks. Failing to include the production side is critical for corporate governance as it risks promoting different claims (especially the claims of shareholders) on corporate revenues 'whether or not their contributions to the generation of these revenues make those returns possible on a sustainable basis' (O'Sullivan 2000: 42). At a more general level, several researchers have noted that economic theories of the firm are ethnocentric in their conceptualization and development, and that the bulk of empirical evidence used to support them have been drawn principally from Anglo-Saxon sources, in particular the United States and United Kingdom (Boyd, Carroll et al. 1996), which limits their usefulness when exploring corporate governance in an international context. Furthermore, the majority of empirical support appears to be based on inferences from secondary source analysis or statistical data (Hill 1995; Boyd, Carroll et al. 1996), rather than empirical fieldwork close to the phenomenon which is the subject of enquiry.

'Organizational Approaches' to Corporate Governance

Given the various critiques of mainstream economic approaches to corporate governance discussed above, in this section I want to ask what other conceptual frameworks have been put forward as alternatives, and explore their relative strengths and weaknesses. The 'stakeholder approach' to the firm is one idea that has been proposed as a counter to economic theories for thinking about the governance of corporations. Although the intellectual lineage of stakeholder ideas can be traced back to the work of Clark (1916) and Dodd (1932), the development of a stakeholder approach to the firm is usually attributed to Freeman (Freeman 1984) who argued that economic theories were based on outdated images of the firm, so a new way of thinking about business organization was required:

...the emergence of numerous stakeholder groups and new strategic issues require a rethinking of our traditional picture of the firm ... We must redraw the picture in a way that accounts for the changes. (Freeman, 1984: 24)

At its core, this approach is concerned with challenging the amorality / immorality of mainstream economic conceptualizations of the firm, and refuting Friedman's (1970) famous proclamation that "the only business of business is business". However in spite of some 17 years having passed since the publication of Freeman's 'call to arms', the development of a rigorous and useful 'stakeholder theory' of the firm still seems a long way off, with many proposals put forward tending to rely on 'a serious mismatch of variables which are mixed and correlated almost indiscriminately with a set of stakeholder-related performance variables that are not theoretically linked' (Wood and Jones 1995: 231).

One possible reason for this is that most work in this field appears to be preoccupied with justifying a stakeholder approach to the firm, rather than the construction of systematic theory to describe more adequately contemporary organizational practices. In many cases this seems to lead scholars along the path of trying to adapt economic theories, rather than constructing afresh an alternative conceptual framework for the firm. For example Jones (1995), explicitly recognizing that the principle shortcoming of the stakeholder approach is its lack of testable theory, proposes an instrumental theory of stakeholder management. His starting point is a critique of the economic literature's exclusive focus on devices (such as incentives, monitoring mechanisms and governing structures) to align the interests of principals and agents. He argues that the promotion of stakeholder thinking in contractual situations is a far more effective way to reduce transaction costs. He draws on the example of Japan, where he suggests that the voluntary adoption of standards of behaviour limit or eliminate the potential for opportunistic behaviour. This is, he argues, a more efficient way of contracting: moral sentiments may solve the problems of opportunism in markets and hierarchies better than the incentives of economic theory. Although Jones offers some useful insights into the behavioural assumptions of economic theories of the firm as well as characteristics of the market, ultimately his argument is simply a variation of (transaction cost) economic theory, based on the premise that ethics in business transactions are economically efficient. Blair (Blair 1995, 1996; Blair and Kochan 2000) puts forward a slightly different model of stakeholder activity, criticizing the current stream of research on corporate governance as 'a long and somewhat arcane scholarly effort to explain large enterprises in a way consistent with neo-classical economic theory' (1995: 228). Her main objection is similar to that of Freeman (1984), that the particular model of the joint-stock company proposed by mainstream economic approaches is outdated, and that modern, knowledge-based corporations require firm-specific investments in human capital for their survival. In this respect, Blair argues for a more important governance role for employees as they too have a residual risk in the firm. Yet beyond this, like Jones her re-formulation of the corporate governance problem then makes many of the same assumptions that mainstream economics does, including the primacy of the market as an arena for the selection of optimal economic choices by utilty-maximising individual agents (1995: 322).

A related but distinct theoretical development, which was also initially established as a direct challenge to agency theory, is stewardship theory (Donaldson and Davis 1991; Davis and Donaldson 1997). Stewardship theory proposes that a manager is the steward of a company's assets, not an agent of the shareholders, and that the 'separation of ownership and control' is not a problem to be overcome, but was a positive and inevitable development enabling the effective management of complex organizations. The theory suggests that depth of knowledge, commitment, access to current operating information and technical expertise are important requirements enabling a company to be run effectively. Consequently it is argued that the economic performance of a firm increases when power and authority are concentrated in a single executive (i.e. a dual CEO / Chairman), who is not distracted by external non-executive directors.

In this respect stewardship theory directly opposes agency theory, where the monitoring role of an independent board and a powerful Chairman, who can represent the interests of shareholders against the self-interest of executive managers, is conceived always to have positive effect on performance. There has been some limited empirical support for the claims of stewardship theory. For example Muth & Donaldson (1998) carried out an empirical study examining the boards of 145 of the largest companies on the Australian Stock Exchange. The findings were that the more independent the board, and with the split of CEO - Chairman, the lower the returns to shareholders and the lower the levels of sales growth. As such stewardship theory provides an interesting challenge to analyses of corporate governance grounded in agency theory, but its full theoretic contribution is yet to be developed (Davis and Donaldson 1997).

The idea of trusteeship (Kay and Silberston 1995) is in some respects not dissimilar to stewardship theory, but has expressly been put forward as a way of advancing the understanding of the way companies are governed without falling prey to some of the simplifying assumptions of mainstream economics. Trusteeship is borrowed from the concept in English law which governs the behaviour of someone who controls and manages assets which they do not beneficially own themselves. The notion of a board of directors as the trustee of company assets, like the idea of stewardship, is argued by its supporters to capture the roles and responsibilities of the board more accurately than the economic theories discussed earlier. However trusteeship emphasizes, perhaps more than stewardship, that managers have a wide-range of motivations other than simply maximizing their own benefits: when faced with a situation which brings no direct personal advantage a manager may still base his/her action on a sense of duty and identification with the organization (Etzioni 1975). Kay and Silberston discuss some of the implications of the theory as follows:

... the duty of the trustee is to preserve and enhance the value of the assets under his control, and to balance fairly the various claims to the returns which these assets generate. The trusteeship model therefore differs from the agency model in two fundamental ways. The responsibility of the trustees is to sustain the corporation's assets. This differs from the value of the corporation's shares. The difference comes not only because the stock market may value these assets incorrectly. It also arises because these assets of the corporation, for these purposes include the skills of the employees, the expectations of customers and suppliers, and the company's reputation in the community. (Kay and Silberston 1995: 92)

For trusteeship, the non-executive director is a valuable creative force on the board of directors, not the representative of the shareholder interest as put forward by agency theory, nor the interloper described by stewardship theory.

One feature that seems particularly noteworthy in relation to the economic approaches to corporate governance discussed so far is that trusteeship does not necessarily require accountability to a specific other. The departure point of Kay and Silberston's version of trusteeship is that in spite of some theoretical claims to the contrary, company assets are not legally, or in any practical sense, 'owned' by anyone. As such, it is difficult to state clearly to whom managers are accountable; it is this difficulty that Kay and Silberston suggest creates many of the controversies around the issue of corporate governance. They argue that the idea of trusteeship circumvents such problems, by suggesting that in a company, managers control broadly defined company assets in trust (the legal concept which gives notional control of assets to a party, but with a legal obligation to administer the assets in a certain way). Kay and Silberston see this conceptualization as being closer to the social reality of organizations than the neoclassical economist's notion that the company is essentially an artificially constructed bundle of contracts. Nonetheless, the idea of trusteeship is argued still to require a system of monitoring and surveillance, to ensure that company assets are administered in the best interests of the company. Kay and Silberston suggest that these principally should take the form of legal mechanisms, rather than accountability to a specified other.

This last point raises the issue that, to some extent or another, almost all current approaches to corporate governance (‘economic’ and ‘organizational’) ultimately focus on hierarchical controls such as fiat, incentives or monitoring mechanisms (Williamson 1996) which are aimed at attenuating the potentially opportunistic or utility-maximizing behaviour of company managers. Recently though, some organizational researchers have put forward ideas that as social organizations, the governance of firms might also usefully be explored in terms of non-hierarchical or social controls, which includes, for example, trust (Tyler and Kramer 1996; Lane and Bachman 2001) and the responsibilities and obligations that are engendered in everyday socio-economic interactions (Learmount 2002).

New institutional economists have recognized organizational trust for some time as an issue with implications for the way that companies are governed, and have attempted to extend and amend their theories to account for the phenomenon (Williamson 1993; Bromiley and Cummings 1995). The underlying assumptions of their approach to trust is that humans are self-interested and opportunistic; therefore the concern of transaction costs economics is to understand the constraints and sanctioning mechanisms that exist to enforce trustworthiness. In this view, it is generally assumed that trust is possible only in very small groups where there is repeated interaction, and is explained principally through calculation and hierarchical controls that proscribe individual self-interested behaviour (Varian 1990; Stiglitz 1993). Emerging notions of trust in the organizational literature, by contrast, propose that the economist’s conceptualization is limited, and building on insights from other disciplines including psychology, sociology, political science and socio-biology aim to challenge the dominance of the ‘rational choice’ economic model of individual motivation (Rousseau, Sitkin et al 1998; Tyler and Kramer 1996).

Powell (1996) attempts to distinguish between and draw-out the relevance for corporate governance of various different approaches to trust. He identifies and explores four varieties of trust, which he suggests operate as forms of governance in different ways depending on the type of co-operation being pursued. The first example he gives is of trust operating in geographically proximate companies, such as those in Silicon Valley or north-central Italy, where small-scale production units seem to operate on a different logic to integrated mass-production firms. In these networks he argues that the risks of the individual business units are attenuated through a trust which develops out of a co-operative infrastructure, depending not just on geographic proximity but close social networks. His second example concerns the importance of trust in rapidly developing technological fields where R&D networks engender a type of trust between individuals based on common membership of a professional community. This is a non-calculative type of trust where co-operation is 'thickened' through the sharing of ideas and knowledge. Thirdly he identifies the type of trust that builds up in close-knit business groups. As an example he discusses Japanese corporate networks, where he says the type of trust which is built-up is calculative and dependent on the maintenance of reputations. Finally he discusses the trust found in strategic alliances, which again he identifies as a form of calculative trust since the 'terms' of the type of trust are usually spelled out in a contract.

The significance for corporate governance of the non-calculative form of trust that is engendered in close social networks is also elaborated in a notable article by Roberts (2001b), who discusses trust within UK boards of directors as a 'socializing' process of accountability, which is argued to complement the 'individualizing' processes of control. Within a board of directors, Roberts argues that trust is possible given 'the collective nature of the group's formal responsibility, the face to face structure of meetings, and the relative balance of power between members' (p.1563). Accountability through surveillance, monitoring and control in this context is conceived of not as an inferior or deficient alternative, but as a solution to the problem of trust at a distance, where the processes associated with atomized individual interactions circumscribe the development of trust. In particular, Roberts claims that the ‘individualizing’ form of accountability that is produced by agency theory promotes a preoccupation with self rather than an awareness of reciprocal dependence. ‘Socializing’ forms of accountability by contrast allow the testing of assumptions through dialogue, which is a vital form of learning that can ‘produce complex relationships of respect, trust and felt reciprocal obligation’ (p.1567), which, he argues, are essential for the effective operation of companies. He is careful to argue that neither form of accountability is necessarily better than the other, but valuably delineates their associated (intended and unintended) effects.

A related idea that I have proposed elsewhere (Learmount 2002) is that a ‘socially endogenous’ form of corporate governance operates in many Japanese firms, which entails an exacting system of close interpersonal scrutiny and sanctioning on the one hand, and processes that encourage and reward prosocial behaviour on the other. I argue that such a system appears to represent an effective means of directing and controlling certain companies, as the system not only inheres close social monitoring and sanctioning of exclusively self-serving behaviour, it also rewards behaviour that supports and enhances the collective goals and values of the whole social network of which the company is a part (which includes shareholders, creditors, suppliers, customers as well as employees).

Such a system of corporate governance that operates through social controls does not constitute a straightforward alternative for a system based around hierarchical controls, as it is contingent on a particular socio-economic context. However, given this context, a system of corporate governance that draws on the voluntary reciprocal obligations and responsibilities enacted in everyday individual-level and organizational-level socio-economic interactions may be useful in considering the direction and control of companies where extant economics-derived approaches are largely silent. This context may exist in family companies, other closely-held companies, start-up companies and public-sector companies. The notion of a ‘socially-endogenous’ corporate governance may prove equally useful in understanding more fully the direction and control of large public companies, as mainstream economic approaches tend to assume away any meaningful internal governance processes (despite many corporate governance codes of practice implicitly recognizing their importance, for example emphasizing the need to balance the relative power of company chairman and chief executive (Cadbury 1992)). In addition, it may offer one way of exploring the link between a company’s system of governance and its production/innovation system, which mainstream economics-informed approaches fail to do (Lazonick and O’Sullivan 1996; O’Sullivan 2000). Trust, for example, has not only been recognized as a coordination mechanism but has also been explored in terms of impact on production, and has even been proposed as a precondition for superior competitive performance (Sako 1998).

Implications for Corporate Governance Research

Work on the relevance of trust and social controls for corporate governance is still embryonic, and certainly requires further theoretical development and empirical scrutiny. Nonetheless, these new approaches do appear to represent a valuable complement to mainstream economics-derived approaches to corporate governance, especially as they recognize the firm not only as a production mechanism but also as a social organization, a political institution and a forum for innovation and knowledge-creation (Morgan 1986). Moreover, they represent a challenge to the hegemony of approaches to corporate governance that focus exclusively on the hierarchical control of the self-interested utility-maximising individual in a way that the other ‘organizational approaches’ do not. As discussed in this paper, most existing models of corporate governance tend to be built on the assumption that without external control, human beings are prone to act self-interestedly. What is perhaps not well understood by those who ascribe to this idea is that the ‘self-interested actor’ is possibly the product of these theories’ own self-fulfilling assumptions

(Ghoshal and Moran 1996; Roberts 2001a). The exploration of non-hierarchical controls in systems of corporate governance takes into account the reality that human beings are at least equally capable of taking into consideration the interests of others alongside their own in making decisions and taking action, and are not solely motivated by incentives, monitoring and fiat. There is a substantial amount of empirical work which discredits the latter view of human motivation and behaviour (Asch 1951, 1956; Allison 1992; Mills and Clark 1994), and yet the work of corporate governance researchers and policymakers, wittingly or unwittingly, continues to be strongly informed by it.

Furthermore, acknowledgment of the relevance of social controls and trust urges a more complex (Roberts 2001b) conceptualization of 'the corporate governance problem': rather than a simplistic focus on the protection of investors' (or owners') capital, attention might be shifted towards a more generalized concern with the accountability of the corporation. This would, moreover, accord with one of the central arguments of Berle and Means (1932), which appears to have been largely ignored by many subsequent scholars. This is their suggestion that as a result of the widespread dispersion of shareholding, active ownership of the firm was being replaced by a far more passive form of 'ownership', and that consequently the traditional conception of the corporation as an entity truly 'owned' by shareholders had broken down. The effective disintegration of the private corporation signalled the arrival of the corporation as a social institution, warranting a new concern with the accountability of the corporation within society at large:

Neither the claims of ownership nor those of control can stand against the paramount interests of the community. ...It remains only for the claims of the community to be put forward with clarity and force. Rigid enforcement of property rights as a temporary protection against plundering by control would not stand in the way of modification of these rights in the interest of other groups. When a convincing system of community obligations is worked out and is generally accepted, in that moment the passive property right of today must yield before the larger interests of society. (Berle and Means 1932: 312).

It was only in a slightly later paper that Berle conceded that in lieu of a well-defined system of responsibilities to society, a system of accountability to shareholders was the most likely interim alternative:
You cannot abandon emphasis on the view that business corporations exist for the sole purpose of making profits for their shareholders until such time as you are prepared to offer a clear and reasonably enforceable scheme of responsibilities to someone else. (Berle 1932: 1365).

In conclusion, I do not want to discount the value of economic approaches to corporate governance, nor the relevance of their 'solutions' for improving the way that companies are directed and controlled. The current dominance of the Anglo-American economic approach to corporate governance does, however, seem to risk prematurely curtailing broader, potentially valuable research on the governance of companies. I hope that by drawing attention to the various limitations of economic theories of the firm and discussing some of the organizational alternatives that have been proposed, this paper has called into question the *hegemony* of economic theories in theorizing the governance of the corporation. As descriptive theories, 'organizational approaches' to corporate governance have many advantages over their economic counterparts, especially in that they tend to acknowledge the complexities of organizational life. Yet they also have their own drawbacks: stakeholder theories for example seem to share many of the limiting assumptions of the economic theories that they criticize, whilst notions of 'trust-based' or 'socially endogenous' corporate governance require a lot more theoretical development and empirical support. What these organizational alternatives do urge, however, is reflection on the currently pervasive, narrow definition of the 'corporate governance problem'. In particular they commend a more extensive consideration of how companies are and might be governed, beyond current narrow concerns with the protection of investors’ capital and the accountability of managers to shareholders.

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