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“DECOUPLING”: MINORITY  
SHAREHOLDER PROTECTION IN THE  
LAW AND CORPORATE PRACTICE

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## **Abstract**

The study of decoupling – i.e. the discrepancies between formal policies and actual practices and outcomes – has seen a remarkable revival. Importantly, a distinction between policy–practice and means–ends decoupling has become widely-used. We argue that the decoupling literature still neglects a key feature of decoupling, namely that it is inherently a multi-level concept. Distinguishing explicitly the macro- (country) and the micro- (organisation) levels, we develop a more fine-grained typology of policy–practice and means–ends decoupling. We hypothesise that differences in the macro-environment may influence the type and extent of decoupling that prevails in a given country. We test our hypotheses in the context of the adoption of legal minority shareholder protection in four European countries. We go beyond previous studies that have investigated policy–practice and means-end decoupling in the same context by using a unique dataset for firm-level corporate governance practices that allows us to investigate the multi-level nature of decoupling more directly. Our findings suggest that that decoupling is context specific and the extent to which policy–practice decoupling occurs may depend on a country’s legal style.

**Keywords:** Decoupling, Corporate Governance, Minority Shareholder Protection

**JEL Codes:** G34, G38, K22, O16

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## 1. Introduction

The integration of the global economy since the 1970s has led to an increased scholarly interest in processes of diffusion of new institutions, policies, and practices across countries (e.g. Westphal, Gulati, and Shortell, 1997; Westphal et al., 2001; Kostova and Roth, 2002; Fiss and Zajac, 2004; Paroutis and Heracleous, 2013). A key question is the effect that institutional adoption has on the targeted practices and on the desired outcome. The neoinstitutional literature has coined the term ‘decoupling’ to refer to possible discrepancies between institutions, practices, and outcomes (Meyer & Rowan, 1977; Pfeffer & Salancik, 1978).

‘Institutional decoupling’ has recently gained renewed attention from organization scholars and has - after decades of much empirical study, but little theoretical development – experienced considerable theoretical refinement. Specifically, Bromley and Powell's (2012) review has sparked a series of papers focusing refining decoupling as a concept (Dick, 2015; Guillén & Capron, 2016; Kern, Laguecir, & Leca, 2017; Wijen, 2014). Thus, some authors have claimed that power, politics, and the state have largely been neglected in the study of decoupling (Kern et al., 2017; Capron & Guillen 2016). Others pointed out that the temporal aspects of decoupling, such as the reasons for persistence of decoupling (Dick, 2015), or recoupling (Hallett, 2010) have so far been neglected (also Bromley & Powell, 2012). Others still suggest that the literature had focused too narrowly on processes of symbolic adoption (policy practice decoupling), neglecting the question of symbolic implementation (means–ends decoupling) (Bromley, Hwang, & Powell, 2012; Bromley & Powell, 2012; Wijen, 2014), or situations of ‘reverse decoupling’ where organizations undertake substantive changes to practices, without however adopting the symbolic policies that would go with them (Carlos & Lewis, 2017).

These recent theoretical refinements add nuance to the study of the interaction between institutions and organizations and constitute important theoretical advances. Yet, somewhat surprisingly given the scholarly attention, a great deal of conceptual ambiguity remains. Most importantly, the literature fails to explicitly acknowledge the inherent multi-level nature of the phenomenon. Decoupling is indiscriminately used to refer to discrepancies between macro-level (country-level, or even international) policies and organization-level practices, on the one hand, and to discrepancies between organization-level formal policies and their implementation in actual organizational practices, on the other. Similarly, ‘practice’ is taken to mean both organisation-level practices that can be directly

influenced by organisational leaders (e.g. the use of ‘poison pills’) and organisational economic outcomes, which cannot (e.g. firm performance).

This paper attempts to start filling these gaps by explicitly conceptualising decoupling as a multi-level phenomenon. Explicitly distinguishing different levels of formal policies (country-level vs. firm-level) as well as practices and outcomes, leads us to distinguish five forms of decoupling, rather than the two identified by Bromley and Powell (2012).

We use the spread of shareholder-oriented corporate governance as empirical context to investigate different forms of decoupling. The decoupling of shareholder orientation discourse at the organization level and its actual implementation in corporate practice has proven a fruitful field for large-N studies of decoupling processes (Fiss & Zajac, 2004, 2006; Westphal et al., 1997; Westphal & Zajac, 1994, 1998, 2001). What is largely missing are studies that directly link the institutional level to firm-level corporate governance practices (Schiehl & Martins, 2016; Rasheed & Yoshikawa, 2012). Most studies either focus on firm level policies and practices (e.g. Fiss & Zajac, 2004, Zajac & Westphal, 1994; 2001), or take aggregate country-level economic outcomes, such as capital market development, as a proxy for firm practices in that country (e.g. La Porta et al., 1999; cf. Rasheed & Yoshikawa, 2012). This is true even for studies that explicitly aim to address the policy–practice decoupling between country-level institutional adoption and corporate practices (Guillen & Capron, 2016). Our typology of decoupling suggests that such empirical strategies do not constitute a satisfactory test of policy–practice and means–ends decoupling.

Our contribution is twofold: Firstly, we further develop the distinction between distinct types of decoupling to capture more precisely a broader range of empirical phenomena. Secondly, we test these theoretical links based on a unique hand-collected comparative and longitudinal dataset of firm level corporate governance practices in four European countries. We thus remedy two wide-spread shortcomings of existing empirical studies. Firstly, a reliance on cross-sectional data alone to investigate a dynamic phenomenon (e.g. Cuomo et al., 2013). Secondly, the neglect of the crucial level of firm-level practices in large-N decoupling studies (e.g. Guillen & Capron; 2016).

Our findings differ markedly from existing cross-sectional studies (Cuomo et al., 2013) in that we find evidence for policy–practice decoupling, but not for means–ends decoupling. This may be due to our more direct and longitudinal way of investigating the phenomenon. Conversely, our findings are in line with other

longitudinal studies that found evidence for policy–practice-, but not means–ends decoupling (Guillen & Capron, 2016). Our findings diverge from the latter study, however, by demonstrating policy–practice decoupling even in cases with comparable levels of state capacity. We suggest that legal style is an important further determinant.

## 2. Literature and Theory

Decoupling designates situations where organizations – consciously or unconsciously – devise buffering mechanisms in response to institutional pressures to maintain organizational leeway, by developing practices that do not reflect the institutional rules (see Bromley & Powell, 2012). Such mechanisms include ‘symbolic management,’ or ‘ceremonial adoption’ of new policies, whereby ‘compliance with external expectations may be merely symbolic rather than substantive, leaving the original relations within the organization largely unchanged’ (Fiss and Zajac, 2006: 1175, also Edelman, 1990, 1992, Westphal and Zajac, 1994, 1998). These mechanisms allow actors inside the organisation to maintain their autonomy from external pressures, while still maintaining organizational legitimacy.

Yet, despite, – or maybe because of – the prominence of the concept, the literature applies the concept to a vast array of empirical phenomena in surprisingly inconsistent fashion. Bromley and Powell (2012) remedy one of these imprecisions in the decoupling literature by introducing the distinction between policy–practice and means–ends decoupling. The former is defined as situations where ‘managers fail to, or avoid, implementing formal rules’, while the latter – newer – concept designates situations where ‘policies are thoroughly implemented but have a weak relationship to the core tasks of an organization.’ (Bromley & Powell, 2012: 485). Yet, this expanded conception does not help to clarify ambiguities regarding the types of policies and practices that the concept is meant to capture; rather, it adds new ambiguities regarding ‘means’ and ‘ends’. Thus, Bromley and Powell (2012: 485) variously define policy–practice decoupling as ‘unimplemented policies’ or a ‘gap between policy and practice’ (*ibid.*) without specifying whether the policies concerned are at the level of the organization or the nation-state. In other places, they talk about ‘decoupling between policy and *procedure*’ (p.492/3; emphasis added); implicitly equating ‘practices’ and ‘procedures’, although one could plausibly argue that the term procedure should be reserved for organization-level policies (rules), which need to be distinguished from actual ‘on the ground,’ day-to-day practices (cf. Weick, 1976). These ambiguities are wide-spread in the decoupling literature.

Thus, concerning policy, some studies focus on policies at the international level (Weber, Davis, & Lounsbury, 2009), while others study national level formal policies (Guillen & Capron, 2016). Still others include in ‘formal policy’ organization level phenomena such as ‘new programs, policies, or other structures’ – which comprise new accounting methods, acquisition strategies, organizational practices, while they refer to the practice side as ‘actual activities’ (Westphal and Zajac, 2001: 202-3). Here, a practice like stock option plans is considered a ‘formal policy in the institutional sense’ because the ‘elements and structure of the plan, as well as the procedure for adopting it, are relatively standardized across firms’ (Westphal and Zajac 2001: 203-4). Following this definition, policy–practice decoupling refers to the decoupling of organization level practices – which are considered ‘formal policy’ if they are institutionalized – from organization level activities. Decoupling thus defined is a purely organizational-level phenomenon, which does not explicitly take into account the macro-level institutional pressures stemming – among other things – from formal rules, such as laws and regulations. This definition of decoupling as an intra-organizational phenomenon is wide-spread both in the classical and recent literature (Maclean & Behnam, 2010; Schofer, 2005; Weick, 1976).

Yet, the same authors sometimes use a very different definition of decoupling in the very same study. Thus, Schofer and Hironaka (2005) after referring to Weick’s intra-organizational definition, also describe decoupling – this time referring to Meyer et al. (1997) – as ‘decoupling between nation-state policy and outcomes’ (Schofer and Hironaka, 2005: 26). While they do not further specify what outcomes they are referring to, Meyer et al.’s (1997) analysis refers to macro-level outcomes related to development. This constitutes an altogether different type of decoupling not just in the sense of the policy–practice and means–end distinction, but also in terms of the levels concerned: here decoupling takes place between country-level government policies – not organizational ones – and country-level outcomes – not organizational practices.

A second wide-spread use of the concept is to define it as a macro-micro phenomenon. Kern et al. (2017:1) define policy–practice decoupling (PPD) as ‘how organizations manage to ceremonially adopt formal rules while keeping their internal practices untouched.’ Here, decoupling is understood as the translation of country-level formal rules into organization-level formal rules, which are not implemented into organization-level practices. This situation is also referred to as ‘symbolic adoption’ (Bromley & Powell, 2012; Wijen, 2014). This definition shows that decoupling does not involve just two, but three levels: the country level policy (formal rules), the organization level formal policy (procedures), and the

organization level ‘actual activities’ (practices). Despite acknowledging these different levels, discrepancies arising between any of these levels are simply treated as the same type of decoupling.

Amalgamating various types of discrepancies under one single concept is problematic and not solved by Bromley and Powell’s (2012) recent refinement. Rather, the new concept of MED may add further conceptual fuzziness. Thus, Bromley and Powell (2012: 489) define MED as situations where ‘policies are implemented but the link between formal policies and the intended outcome is opaque’. The MED concept, thus defined, ignores the macro-level by assuming that macro-level policies are adopted (into formal organization-level policies) and implemented (into actual organization-level practices), but do not achieve the intended ‘ends.’ MED therefore is a purely micro-level phenomenon. Yet, ‘ends’ are not clearly defined, but sometimes refer to the desired change in organisation-level practices, sometimes as the intended economic outcome, sometimes as the organizations core tasks or its ‘effectiveness’. To be sure, the ‘ends’ of each policy may vary depending on its content, which makes it a difficult notion to define to begin with. Some policies will indeed aim at changing organizational practices, others at achieving specific (micro or macro) outcomes. Nevertheless, this conceptualisation of MED fails to explicitly distinguish the levels of policies (means) and practices (ends) from a third level which it introduces, namely ‘outcomes,’ which is treated interchangeably with other types of ‘ends’.

The distinction between ‘practices’ and ‘outcomes’ is important. In the empirical literature, practices are most commonly associated with organisational procedures and structures that govern the functioning of the organisation (e.g. Lounsbury, 2001). Practices can to a considerable extent be controlled or at least influenced by organizational leaders and are normally geared towards the pursuit of the organization’s core tasks. ‘Outcomes,’ on the other hand, are the result of organisational activities (both official and informal), but unlike practices are not as directly subject to managerial choices, because they are to a large extent determined by factors outside of managerial control. Thus, we label organizational performance, stock market capitalisation, and ownership structures as ‘outcomes’ rather than ‘practices’.



### 3. Decoupling as a Multilevel Phenomenon

Acknowledging the shortcomings of the decoupling concept, some authors have suggested to abandon it altogether (Shofer and Hironaka 2005). Yet, we argue that ‘decoupling’ has the distinct advantage of zeroing in on the impact of formal policies not just on outcomes, but also on the intermediary level of organizational practices. This is particularly important for studies that are interested in isolating the role of formal institutions – most importantly state law – on organizational practices and outcomes, as is often the case in the area of international corporate governance (Aguilera and Jackson, 2010; Schiehl and Martins, 2016; Deakin et al., 2017; Schnyder et al., 2017). Therefore, rather than abandoning the decoupling concept, we suggest refining it by explicitly theorizing the different levels at which it can occur. We propose a typology, which systematically distinguishes policies, practices, and outcomes at the macro and the micro levels (cf. Table 1).

**Table 1. A Typology of Decoupling**

	Organizational Practice	Organizational outcome/ends	Macro-level outcomes/ends
Organisation level policy/means	Type 1 Policy–practice Decoupling (PPD1)	Type 1 Means-End Decoupling (MED1)	
Macro-level Policy/means	Type 2 Policy–practice Decoupling (PPD2)	Type 2 Means-End Decoupling (MED2)	Type 3 Means-End Decoupling (MED3)

We call the first case type 1 policy–practice decoupling (PPD1). It designates an organization-level phenomenon where an organization’s policy is not implemented and a discrepancy with actual practices arises. Examples of such PPD1 include the adoption by firms of shareholder orientation discourse into official policies, without adopting any concrete shareholder-oriented corporate practice, e.g. more transparent accounting standards (e.g. Fiss & Zajac, 2004).

The second type of policy–practice decoupling is a macro-micro phenomenon. It consists in macro-level policies (either country- or international-level policies) not being implemented in organization-level practices. We call this macro-micro phenomenon type 2 policy–practice decoupling (PPD2). A myriad of examples of non-compliant behaviour of organizations with legal rules illustrate this phenomenon. This definition of PPD2 raises the question whether macro-level policies are reflected in organization-level policy (as opposed to practice), or whether macro-level policy is not reflected in either organization-level policy or practice. In the latter case, PPD1 and PPD2 are present simultaneously, while in the former case, there is no decoupling at the organization level, but only at the macro-micro level.<sup>1</sup>

Means–ends decoupling too can be separated into further distinct sub-types. Our framework suggests three different possibilities: Type 1 means–ends decoupling (MED1) designates situations where the organization-level policies – although implemented in organizational practices – are not producing the expected organization-level outcomes. For instance, appointing more non-executive directors to the board may not lead to a reduction in agency costs. This is the understanding of MED implied in Bromley and Powell’s (2012) expanded conceptualisation. Type 2 means–ends decoupling (MED 2) is a situation whereby macro-level policies (means) do not have the expected impact on organization-level outcomes (ends). For instance, a new law on working hours does not lead to employees’ working time to be reduced. Whether or not this is because of a lack of organization-level adoption of the macro-level policy, a lack of implementation of the adopted organizational-level policy (PPD1), or despite the adoption and implementation of the macro-level policy, is an important but distinct question.

Type three means-end decoupling (MED3) is a situation where macro-level policies do not produce the macro-level outcomes that the policy was expected to produce. For example, a new law increasing minority shareholder protection (MSP) does not lead to an increase in stock market capitalization. At first glance, this phenomenon may be of less direct interest for organization scholars. However, given that the causal chain linking macro-policy and macro-outcome passes

through the organizational level (it is the aggregation of individual firms' market capitalisation that constitutes a country's market capitalization), this type of macro-macro decoupling too can have relevance for organization and management scholars (see Guillén & Capron, 2016).<sup>2</sup>

In practice, these distinctions may not always be as clear as they are in theory. Thus, depending on the content of the policy in question, a macro-level policy's main intended outcome ('end') may be to encourage or prohibit a given corporate practice. In such a case, the 'practices' and the 'ends' of the policy coincide. It is hence thinkable that PPD2 and MED2 are equivalent in some cases. Whether that is the case is, however, an empirical question.

Our more fine-grained typology of decoupling allows us to shed light on various aspects of decoupling that Bromley and Powell's (2012) review raises; most importantly its antecedents. Previous studies found that decoupling is determined by the interests of powerful organisational leaders, the type of owners in a publicly listed corporation, the interests of internal constituencies, and the reasons for adoption (legitimacy vs. technical need) (Bromley & Powell, 2012; e.g. Fiss & Zajac, 2004). Our multilevel approach suggests that we also need to account for country-level factors such as state capacity (Guillen & Capron, 2017), politics (Schnyder, 2011), legal systems (Bromley & Powell, 2012; Armour et al., 2009, La Porta et al., 1999), and other institutional features (Aguilera & Jackson, 2003) to fully understand processes of decoupling especially of the macro-micro type. The next section develops hypotheses for our empirical case.

#### **4. Empirical Context and Hypothesis Development**

Corporate governance and the protection of minority shareholders are areas marked by strong trends of institutional adoption of new practices. This, is partly explained by strong coercive pressures stemming from legal reforms favouring minority shareholders, which have spread across the world (Hansmann and Kraakman, 2000; Siems, 2010; Deakin, Sarkar, and Singh, 2011; Cuomo, Zattoni, and Valentini, 2013; Guillén and Capron, 2016). As such, the spread of shareholder-orientated corporate governance has proven a very fertile ground for decoupling studies (Ansari, Shahzad M; Fiss & Zajac, 2010; Fiss & Zajac, 2004, 2006; Westphal et al., 1997; Westphal & Zajac, 1994, 1998, 2001; Zajac & Westphal, 1996).

In a recent study, Guillen and Capron (2016) investigate the impact of a macro-level political factor – namely state capacity – on the extent of policy–practice and

means-end decoupling. They define policy–practice decoupling as situations where the country-level legal shareholder protection rules are not implemented in the organisation, while ‘means–ends decoupling’ would be present if an increase in legal shareholder protection does not lead to an increase in stock market development. Guillen and Capron (2016: 151) do not find any evidence of means–ends decoupling – i.e. increasing legal MSP does indeed lead to more developed stock markets. They do find, however, evidence of policy–practice decoupling: change in legal shareholder protection does not always result in corporate change. Yet, they also show that policy–practice decoupling is reduced as state capacity increases. In other words, where states are capable, legal change tends to be more closely reflected in corporate governance practices.

Guillen and Capron’s (2016) study makes an important contribution by applying the new types of decoupling to the case of corporate governance reform. Yet, as in many decoupling studies, the conceptualisation and operationalisation of decoupling remain unconvincing. Thus, Guillen and Capron (2016) operationalize ‘practice,’ as a country-level measure of stock market development, which is composed of three elements: market capitalisation, number of stocks traded, and stock turnover. This operationalisation leads to a mismatch between the study’s goal of investigating macro-level policy and firm-level practice decoupling (PPD2 in our typology) and the operationalization of decoupling as a purely macro-level phenomenon (Country-level laws and country-level stock market development). Moreover, market capitalisation – even if measured at the firm level – raises questions regarding its suitability as measure of corporate governance practices. As our literature review showed, practices are usually defined as structures and procedures that are consciously adopted and implemented by organizational leaders. Stock market capitalization however is not directly and completely subject to managerial control. Managers can to some extent influence market capitalisation through decisions about capital structure (e.g. repurchases) and discursive activities that affect share price (e.g. ‘road shows’) (cf. Froud, Johal, Leaver, & Williams, 2006). Yet, they cannot directly ‘choose’ a given market capitalisation, because it also depends on external factors such as investor demand, interest rates etc. Consequently, contrary to – say –the use of poison pills, stock market development constitutes only an imperfect proxy to measure the organization-level implementation of legal rules of shareholder protection. It is an economic outcome, rather than a corporate practice. Therefore, following our typology, we would classify Guillen & Capron’s (2016) study as investigating MED3 rather than any form of PPD.

In this study, we explicitly conceptualise the problem of legal shareholder protection and firm-level outcomes as a macro-micro phenomenon and develop an empirical strategy that allows us to investigate PPD2 and MED2 more directly than Guillen and Capron's (2016) approach.

While numerous studies in comparative corporate governance investigate the impact of legal factors on firm performance and other outcome variables (Schiehll & Martins, 2016), few directly investigate the impact on firm-level corporate governance practices. Schiehll and Martins's (2016: 186) review finds that only eighteen out of the eighty-nine reviewed studies investigate firm-level governance practices as dependent variable in comparative fashion. Moreover, the range of governance practices investigated is limited to features of the board of directors, transparency, aggregate quality of corporate governance, and capital structures. One exception is Cuomo et al.'s (2013) study of the Italian case. Applying the so-called Law and Finance approach (La Porta, Lopez-De-Silanes, & Shleifer, 1999; La Porta, Lopez-De-Silanes, Shleifer, & Vishny, 1998), they explicitly investigate the impact of legal shareholder protection on different firm-level practices and outcomes. We draw on this approach to develop hypotheses about the two different macro-micro types of decoupling.

***PPD2: Shareholder protection and control enhancing mechanisms.***

In order to capture PPD2 in the context of corporate governance reform, we follow Cuomo et al. (2013) who use as firm-level practice control enhancing mechanisms (CEMs) that allow corporate insiders to shield themselves from external shareholder pressures. The Law and Finance literature argues that companies use fewer control enhancing mechanisms when the legal level of shareholder protection is high (Cuomo et al. 2013; Morck and Yeung 2004; La Porta et al. 1999). This is explained by insiders' incentives: Where shareholder protection is low, private benefits of control tend to be higher, which in turn means CEMs are more 'profitable' for controllers (Grossman & Hart, 1988; Harris & Raviv, 1988). A second, more direct and coercive mechanism that links legal shareholder rights to CEMs, is that some CEMs may simply be prohibited by law (Schnyder et al, 2017). These two mechanisms lead to the following hypothesis (see Cuomo et al., 2012: 432):

*Hypothesis 1: An increase in legal minority shareholder protection is associated with a reduction in the use of control enhancing mechanisms, such as voting rights distortions or takeover defences.*

We would conclude that PPD2 occurs if the effect of legal minority shareholder protection failed to be positive and significant and we reject hypothesis 1.

***MED2: Shareholder protection and economic outcomes.***

One of the Law and Finance scholarship's key postulates is that legal shareholder protection determines the level of companies' ownership concentration (Faccio and Lang 2002; La Porta et al. 1999). In our definition, ownership concentration constitutes an economic outcome variable not a corporate practice. Managers have some influence over the concentration of their company's equity, e.g. by choosing how much new stock to issue. But by and large, the ownership concentration is determined by historical contingency and the behaviours of investors in the secondary market who are largely outside the company's control. Still, the literature considers that ownership concentration will indirectly be affected by legal shareholder protection: 'badly' governed firms create incentives for blockholders to acquire controlling stakes in order to influence management from 'within' (La Porta et al., 1999). Conversely, if legal shareholder protection increases, blockholders' fear from expropriation will decline and their willingness to sell out will increase, which leads to more dispersed ownership structures (La Porta et al., 1999; Cuomo et al., 2013: 448). Consequently, we use ownership dispersion to investigate macro-micro means-ends decoupling (MED2). We test the following hypothesis:

*Hypothesis 2: An increase in legal minority shareholder protection is associated with a reduction in ownership concentration at the firm level.*

A rejection of this hypothesis would constitute strong direct evidence for MED2. Stock market development is a second outcome that the Law and Finance school considers both a desirable and beneficial result of legal shareholder protection (cf. Guillen & Capron, 2016). Indeed, stock market development is expected to promote economic growth by making it easier and cheaper for firms to raise capital and pursue growth opportunities (Beck, Levine, & Loayza, 2000; La Porta, Lopez-de-silanes, & Shleifer, 2008).

At the firm-level, higher levels of MSP in the legal framework are expected to lead to higher market capitalisation, because more people are ready to invest in shares, which leads to higher share prices and makes equity finance cheaper and more readily available to firms (La Porta et al., 1998). Therefore, legal MSP is expected to positively affect both number of outstanding shares and the share price. Therefore, we hypothesize:

*Hypothesis 3: An increase in legal minority shareholder protection is associated with an increase in firm market capitalisation.*

Rejection of hypothesis 3 implies that MED2 is present.

### ***Country-level antecedents of decoupling.***

The decoupling literature was dominated for a long time by qualitative work and case studies (Westphal & Zajac, 2001). Since Westphal and Zajac's (1994) important study, which was arguably the first large-N decoupling study, others have investigated intra-organizational socio-political aspects of decoupling (Westphal & Zajac, 1994, 2001; Zajac & Westphal, 1995). These studies provide very valuable insights into what firm-level factors determine decoupling (Fiss and Zajac, 2004, 2006). Yet, most of these studies are single country-studies, which do not investigate how country-level factors may affect the extent, type, and nature of decoupling. Conversely, comparative studies on the diffusion and institutional adoption of policies and practices, oftentimes do not specifically – or only marginally – touch upon decoupling *per se* (Sanders & Tuschke, 2007; Tuschke & Sanders, 2003; Weber et al., 2009; Zelner, Henisz, & Holburn, 2009).

Yet, country level factors are arguably important determinants of the form and extent that decoupling may take in a given country. Short and Toffel (2010) have shown that the extent of threats of sanctions and surveillance play an important, but still understudied, role in processes of decoupling. Indeed, country-level factors such as the quality of courts, legal enforcement, or more generally the Rule of Law (see van Essen, Heugens, Otten, & van Oosterhout, 2012) affect the leeway organizational actors have in adapting to formal and informal institutional pressures (also Bromley & Powell, 2012; Jackson, 2010; Deakin et al., 2017). Enforcement, not only determines cross-country differences, but also the leeway firms within the same country have to deviate from macro level governance forces (what Aguilera, Judge, and Terjesen, 2016 call ‘governance discretion’). Such features of a country’s political- (Guillen & Capron, 2017), legal- (Bromley & Powell, 2012; Armour et al., 2009, La Porta et al., 1998), and more broadly institutional (Aguilera & Jackson, 2003) system vary across countries. Decoupling can therefore be expected to vary across countries too. Comparative large-N studies investigating country-level determinants of decoupling are, however, still exceedingly rare (see Bromley & Powell 2012).

The Law and Finance literature posits that enforcement is the key reason why companies' comply with legal shareholder protection (see e.g. Djankov et al., 2003; for an overview Schnyder et al. 2017). Law enforcement is, in turn, influenced by state capacity (cf. Capron & Guillen, 2016), as it determines the effectiveness of public enforcement as well as the effectiveness of courts (Djankov et al., 2003). Yet, enforcement may vary across countries with very similar levels of state capacity too. This is for instance the case because prevailing social and cultural norms make private enforcement – through formal law suits by private parties – more or less likely. Indeed, legal scholars have argued that there are differences between the American legal system where 'dispute resolution' is mainly done 'by means of lawyer-dominated litigation' (Kagan, 2001: 3) and the more informal, cooperative, and less litigation based continental European system (Kagan, 1997; Kelemen and Sibbitt, 2004; also Levi-Faur, 2005). This echoes studies in the so-called 'Law and Finance' tradition that argue that different 'legal families' vary in the extent to which they rely on judge-made law and litigation, with Anglo-Saxon common law systems relying more on courts than continental European civil law (Glaeser & Shleifer, 2002). Empirical studies confirm that continental European countries with a neo-corporatist tradition, where employers and employee organisations tend to cooperate, often rely on cooperative means and informal relational contracts to solve conflicts rather than adversarial enforcement of state laws through courts (Hall & Soskice, 2001; Lubatkin, Lane, Collin, & Very, 2005). This also suggests that in countries with a more adversarial legal style the threat of private enforcement may increase law-takers incentives to implement legal rules and policies. At the level of cross-country differences in decoupling we therefore hypothesize that:

*Hypothesis 4: In countries with a more adversarial legal style, an increase in legal shareholder protection is less likely to be decoupled from corporate practices.*

## **5. Methods**

### ***Data and Sample***

This study is based on a hand-collected dataset that covers a sample of the largest listed companies in four European countries over the period 1990 to 2010. We choose four countries based on their classification into different 'legal origins' in the Law and Finance literature, namely the Netherlands (French civil law origin), Sweden (Scandinavian civil law), Switzerland (Germanic civil law), and the UK (common law) (see Porta et al., 1998; Glaeser and Shleifer, 2002). This allows us to cover different legal styles mentioned in our fourth hypothesis. We chose the



UK as the only European common law country, but focused on small continental European states, rather than the ‘mother countries’ for the civil law categories (France and Germany). The reason for the latter choice, was that small countries are particularly exposed to international pressures, which makes them useful cases to study processes of institutional adoption and firm-level changes (Heemskerk & Schnyder, 2008).

The four countries are relatively similar in terms of state capacity. Indeed, on Hanson and Sigman’s (2013) state capacity index, all four are ranked within the top 10% of 176 countries (UK 6<sup>th</sup>, Netherlands 8<sup>th</sup>, Switzerland 9<sup>th</sup>, and Sweden 18<sup>th</sup>). They differ, however, in terms of their legal style: the UK’s common law system is the closest to the US and has therefore also got a more adversarial legal style than the three continental cases (La Porta et al., 1999). The latter have all been classified as neo-corporatist countries, implying more collaborative rather than adversarial relationships between stakeholders (Katzenstein, 1985; Schmitter, 1974). The Swiss and the Dutch brand of corporatism is tilted in favour of the business elite, compared to more ‘societal’ forms of corporatism, with more balanced power relations between business and employers, in Sweden (Armingeon, 1997).

Our sampling method consisted in creating a list of the largest listed companies in the four countries for every year from 1990 to 2010. Given the longitudinal approach and the nature of the data required, we had to rely on a combination of electronic datasets (Amadeus, Datastream, Osiris, Thompson One Banker) and archival resources, including stock exchange year books and similar publications. Therefore, while our goal was to obtain a sample of the approximately 100 largest firms based on year end market capitalisation, we started with a much larger sample to have ‘reserve’ companies in case of data availability issues. For instance, our our main source for the UK – the London Stock Exchange Yearbook – did not contain information for the many foreign firms listed on the London Stock Exchange. Therefore, the sample size for the UK case is smaller than for our smaller countries with fewer foreign firms and more complete information. For the UK the samples vary from 74 companies to 95 companies depending on the year. This compares to 95 to 110 companies in Switzerland, 95 to 187 companies in the Netherlands, and 111 to 148 companies in Sweden. While these are significant differences that do not reflect the size of the respective economies, we decided to maintain the samples. To check for the impact of sample size we also ran our main model for each country sub-sample separately.

While the historical nature of the dataset comes at the prize of the quality and completeness of data and forced us to focus on a very small number of countries, it does constitute, to the best of our knowledge, the first study using extensive, longitudinal firm-level data to test the interaction between legal shareholder protection and firm level practices in a comparative fashion.

***Dependent Variable for Firm-Level Practice: Deviations from ‘One share, one vote’ principle***

One of the rare studies that explicitly tests PPD2 according to our definition by focussing on law’s impact on firm-level corporate governance practices is Cuomo et al.’s (2013) study. They focus on two types of control enhancing mechanisms (CEMs) as practice of interest: pyramid structures or syndicate agreements among shareholders. Yet, these are both ownership-based CEMs, i.e. they involve control by inside shareholders through ownership structures. The agency conflict that they are investigating is hence not the principal-agent conflict between minority shareholders and the management that arises from the dispersion of ownership (Jensen & Meckling, 1976), or the use of entrenchment mechanisms by managers (Bebchuk, Cohen, & Ferrell, 2009), but rather what Young et al. (2008) have called the principal – principal conflict between large, controlling shareholders and non-controlling minority shareholders. While both situations essentially lead to insider control over the firm, legal reforms over the past forty years have predominantly focused on the protection of minority shareholders from boards and managers rather than from controlling shareholders (Armour, Deakin, Lele, & Siems, 2009). Therefore, to investigate decoupling between legal minority shareholder protection and corporate governance practices, it would seem more appropriate to focus on corporate governance practices that constitute forms of managerial entrenchment rather than blockholder control. Therefore, rather than focusing on pyramids or shareholder agreements, we focus on mechanisms that limit shareholders voting rights by departing from the principle that each share of stock in the company should give right to one vote (‘one share, one vote’ principle).

Deviations from this principle come closer to our definition of a managerial choice variable than ownership-based CEMs, which are to some extent outside of managerial control. This is also supported by previous studies that have argued that limitations to voting rights constitute a more important limitation of shareholder rights than other governance mechanisms, because voting rights are the shareholders’ primary power (Bebchuk et al., 2009: 783). Therefore, deviations

from the ‘one share, one vote’ principle are a particularly important indicator of shareholder rights in firm-level corporate governance practices.

Our main dependent variable to measure CEMs is hence a measure of the number of deviations from the ‘one share – one vote’ principle. We follow previous studies by creating a proxy for the extent of limitations of shareholder rights, by counting the number of deviations from the ‘one share- one vote’ principle (cf. Cuomo et al., 2013). We identified eight different ways in which companies distort voting rights, described in table 2. We calculated the sum of these eight binary variables to create our dependent variable measuring the extent of CEMs used by our sample companies.

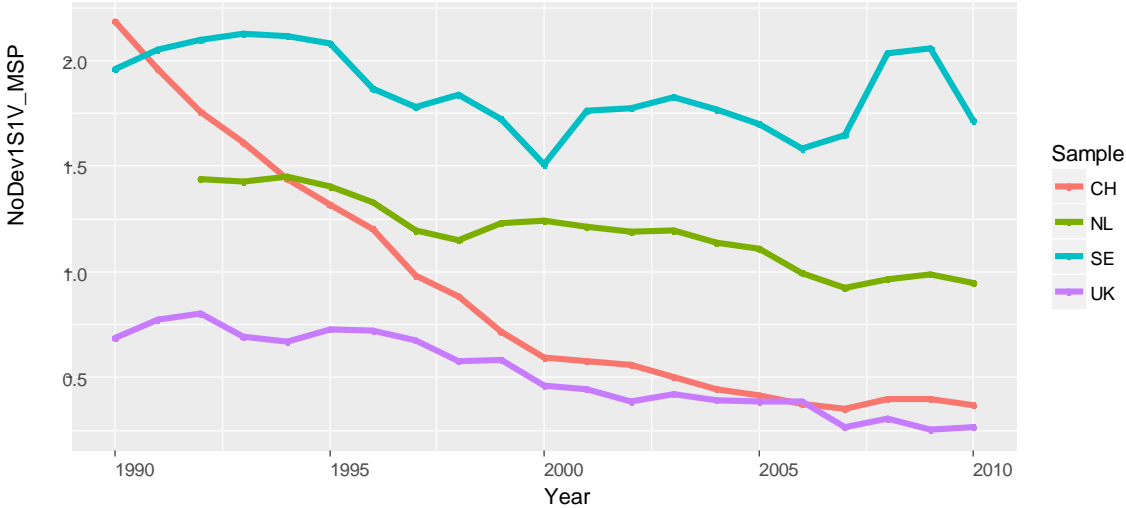
Figure 1 shows the evolution of this dependent variable during our period of study. The theoretical maximum for this variable is 9, but the actual maximum in our data is 4; the minimum 0.

Since the literature does not provide us with any obvious criterion to further specify any relative strength of these different control devices, e.g. in terms of their effectiveness, we followed previous studies that simply summed up different instruments without any particular weighting or ordering (Cuomo et al., 2013; De Jong, DeJong, Mertens, & Wasley, 2005).

### ***Dependent Economic Outcome Variables: Ownership concentration & market capitalization***

To test macro-micro means–ends decoupling (MED2), we investigate the relationship between legal MSP and economic outcomes. We chose two different outcome variables: Firm-level ownership concentration and firm-level market capitalization.

Figure 1: Average Number of Deviations from 'One Share, One Vote'



**Table 2. Deviations from the ‘one share, one vote’ principle<sup>3</sup>**

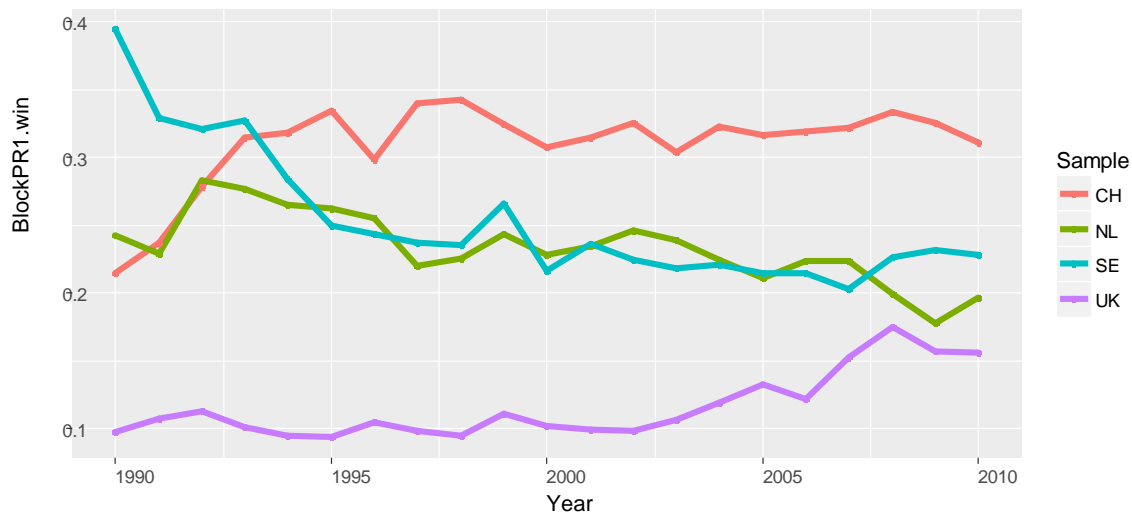
Dual class shares	Indicator variable equal to one if the company has several classes of common stock, such as class A/B, registered/bearer shares, with different rights appending to them; equal to 0 otherwise.
Non-voting shares	Indicator variable equal to one if the company has issued non-voting common stock (excluding preferred stock); equal to 0 otherwise.
Multiple voting rights	Indicator variable equal to one if the company has issued common stock (excluding preferred stock) with multiple voting rights or lower nominal value than other classes of common stock.
Priority and preference shares (usual)	Indicator variable equal to one if the company has issued priority or preferred stock, zero otherwise. Preference shares are considered to be of the ‘usual type’ if they give right to special/higher dividends but no or limited voting rights.
Preference shares (unusual)	Indicator variable equal to one if the company has issued unusual priority or preferred stock, zero otherwise. Preferences shares are considered ‘unusual’ if they are different in at least one respect from usual priority or preference shares (e.g. carry special control rights, but no cashflow rights). For instance: for Dutch companies, existence of special rights shares is coded under ‘priority shares’ (‘unusual preferences shares’), as dual class of common stock is formally prohibited (De Jong & Roell, 2005).
Minimum number of shares to vote	Indicator variable equal to 1 if the company sets requirements for a minimum number of shares to vote.
Restriction to the transferability of shares <sup>4</sup>	Indicator variable equal to 1 if the company applies limitations to the transferability of shares and zero otherwise. This variable includes different legal instruments that give insiders the right to either refuse the transfer of shares or grant them a ‘pre-emption right’. Thus, Switzerland knows a system called <i>Vinkulierung</i> , which allows the BoD or top management to limit the transfer of shares (since 1992 only the exercise of the voting right). Sweden has a series of instruments called <i>hembud</i> , which consist in a right of first-refusal / right of pre-emption on certain shares, which forces share owners of certain categories of shares to first offer their shares to the company when they want to sell out. The NL too knows a right of pre-emption (de Jong & Roell 2005). These restrictions usually imply that the company reserves the right to refuse registration in the stock ledger (implying that the shareholder cannot exercise their voting rights. Therefore, presence of transferability restrictions was coded as 1.
Golden shares/veto power	Indicator variable, equal to one if the biggest owner (by voting power) holds a veto power or owns ‘golden shares’ or if a private or government (public) owner holds the veto or golden share

## Firm-level ownership concentration

While ownership concentration is sometimes used as a firm-level antecedent of corporate governance practices (Tuschke & Sanders, 2003), here we are interested in ownership concentration as a dependent variable (Cuomo et al., 2013; La Porta et al., 1999).

The most common way to proxy for firm-level ownership concentration in the literature is to either use the percentage held by the largest direct shareholder (Claessens & Laeven, 2002; Cuomo et al., 2013; Faccio & Lang, 2002), or the cumulated percentage held by the three largest (La Porta et al., 1998). Since disclosure requirements vary across our different countries and over time, we chose to use the former measure, because it is less affected by disclosure of different sizes of stakes. We ran robustness checks with the cumulative variable, which do not substantially change the results. Figure 2 shows the evolution of the average stake held by the largest direct owner. Switzerland has the most concentrated ownership structure and the UK most dispersed one; with the two other countries closely together in between. This is consistent with both previous studies (Faccio & Lang, 2002) and the Law and Finance literature (La Porta et al., 1998).

Figure 2: Ownership concentration (percentage of votes by largest shareholder)

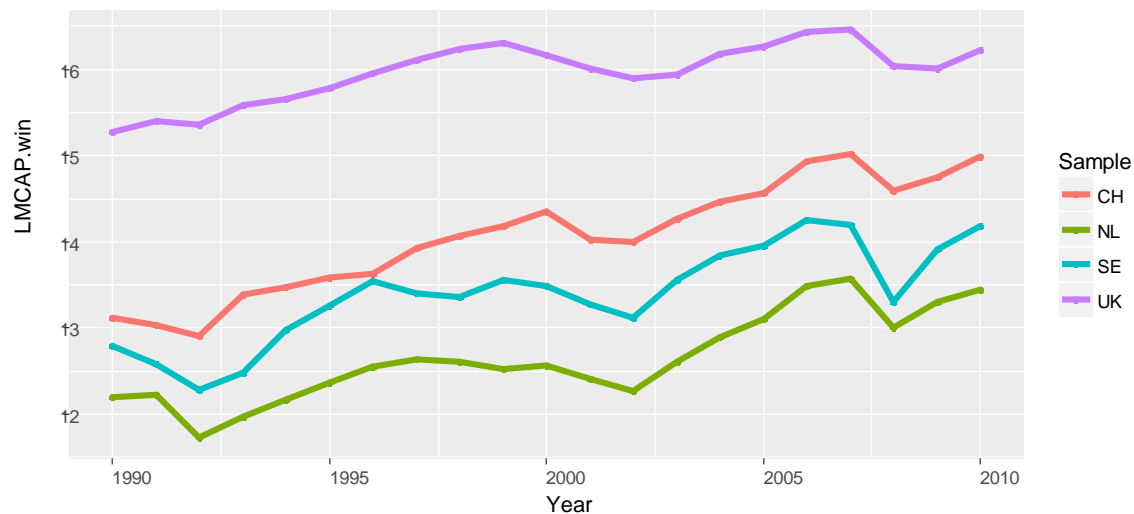


## Market capitalization

Our second economic outcome variable is company market capitalization. We measure market capitalization at year end defined as the stock price at year end multiplied by the number of common shares outstanding. For companies with more than one type of common/ordinary share, market capitalization represents the total market value of the company.

Figure 3 shows the evolution of average firm market capitalization (logged) by year and country. As one would expect, UK companies have a considerably higher market capitalisation than the companies from the three smaller countries. Among the latter, Swiss companies have the highest market capitalisation on average, which is consistent with previous research (Faccio & Lang, 2002).

Figure 3: Average market capitalisation (log)

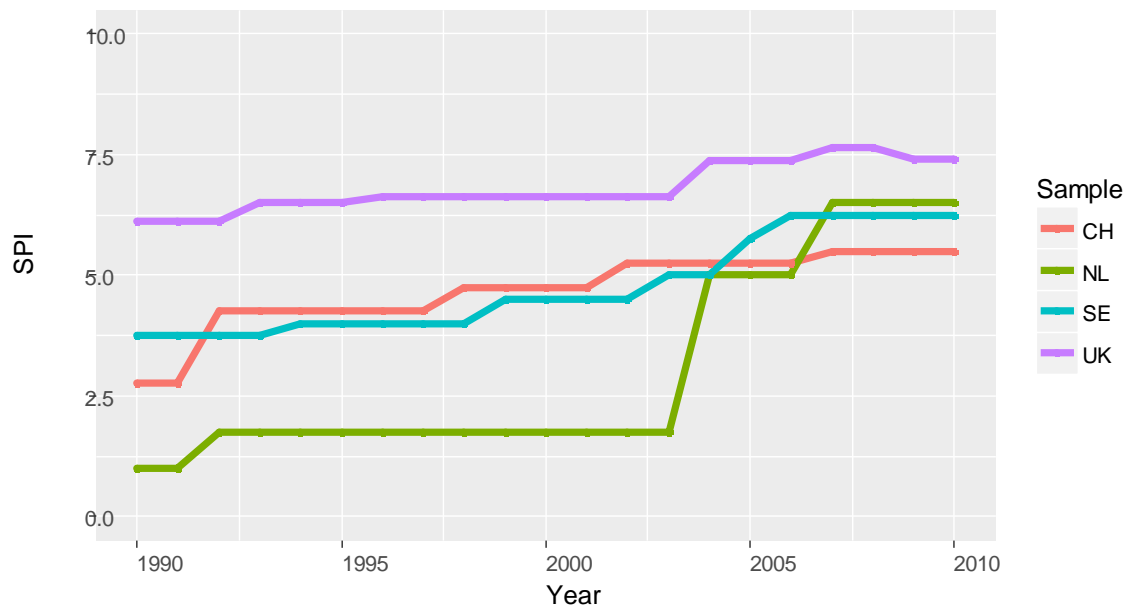


## *Independent Variable*

Our main explanatory variable is legal minority shareholder protection. We improve on the approach used in Cuomo et al.'s (2013) study, by using not a cross-sectional measure of legal change, but a longitudinal one. Guillen and Capron (2016) show that cross-sectional measures may be misleading, because they provide a snapshot of legal MSP that may not accurately reflect the changes over time. Guillen and Capron (2016) use the Cambridge Centre for Business Research

(CBR) Shareholder Protection Index (Siems et al., 2009) methodology to code their own longitudinal cross-country index. Here, we use the original CBR coding of the same index, because the coding is publicly available and hence replicable (Siems et al. 2009). We used Guillen and Capron’s (2016) index for robustness checks. The CBR SPI is composed of ten variables, each of which measures one important shareholder right (for details see Siems, 2008: 116). Figure 4 shows the evolution of legal shareholder protection in the four countries according to this measure.

Figure 4: Legal Shareholder Protection in Four European Countries



### *Control Variables*

We include a series of common control variables, namely the log of the (winsorized) market capitalisation (for models that do not take market cap as dependent variable). This allows us to address an endogeneity issue. When financial development is weak, companies have less incentive to change firm-level practices following legal change, because the pay-off in terms of access to finance thanks to such changes is lower (Doidge, Karolyi, & Stulz, 2007). This may apply to the firm-level two, with higher capitalized firms relying more on market finance. Moreover, market cap proxies for firm size. We also include in different models, firm age, and industry, country-, and year dummies (where appropriate).



## *Estimation Methods*

For our first hypothesis, we follow previous studies on CEMs in using Poisson regression to account for the fact that the dependent variable is a count variable (number of deviations from ‘one share, one vote’) (cf. Cuomo et al. 2013). For this model, we used Maximum Likelihood Estimation (MLE) on panel transformed data (Croissant & Millo 2008). We estimated a mixed effect model including year fixed effects to account for unobserved time effects. Given the structure of our data with a large number of units (approximately 400 firms) per year, but a relatively low number of observations per unit (maximum 21 years), firm fixed effects would be inefficient (Cuomo et al., 2013). In order to account for the potential within unit correlation of the error terms, we computed cluster and autocorrelation robust standard errors.

We also standardised our dependent variable and estimated an OLS model with this unbound dependent variable. A Hausman test indicates that a random effects model would not be efficient for our data ( $p < 2.2e-16$ ). We therefore included time fixed effects. We computed robust standard errors to account for the fact that including firm fixed effects would be inefficient.

We estimate the models relating to the second hypothesis (impact of legal shareholder protection on ownership concentration) using a beta regression and a Tobit regression using MLE to account for the fact that the dependent variable is a ratio (Cribari-Neto & Zeileis, 2010). Again, we include year fixed effects, but no firm fixed effects. For this model, we use the transformation described in Cribari-Neto and Zeileis (2010) and (Smithson and Verkuilen (2006) on our dependent variable to guarantee that the resulting values will not exactly take the extreme values of 0 and 1. We applied beta regression after these transformations.

Further, we transformed the dependent variable using a logit transformation in addition to the first two transformations and then ran a Tobit model on the same independent variable. This constitutes a robustness check to account for the particular distribution of ownership concentration. We included year fixed effects. Finally, for our third hypothesis (impact of SPI on market capitalisation) we used OLS with year fixed effects and robust standard errors. We ran robustness checks using an auto-regressive dynamic panel model, which did not change the results. In each one of the above steps we include country dummies, which allows us to also address hypothesis 4 regarding country specific forms of decoupling. In addition, we ran our first model for our country-subsamples to further check for the impact of country-specific factors.

### *Sample for analysis*

Our sample consists of an unbalanced panel of 776 unique firms measured over a 21-year period corresponding with 7614 firm-year observations. The sample is unbalanced due to changes in the composition of the stock exchange indices over the years of observation, mergers, delistings, and bankruptcies. We report descriptive statistics and correlations between variables in Table 3 below.

**Table 3. Descriptive statistics & Correlations**

	Mean	St. Dev.	1	2	3	4
1. Deviations from '1 share 1 vote'	1.2	1.1				
2. Market capitalization (log)	13.9	1.9	-.18			
3. Largest blockholder	0.2	0.2	.02	-.27		
4. Shareholder Protection Index	4.5	1.9	-.25	.57	-.16	
5. Firm age	83.2	55	.20	-.06	.06	-.14

## **6. Results**

Table 4 shows the results for our main models for each one of our three dependent variables. Regarding our first hypothesis that tests PPD2, we report two models. The first one uses the standardised dependent variable, while the second one uses a Poisson model on the actual dependent variable. In both models, the coefficient is contrary to the hypothesis, indicating a positive relationship between the level of legal shareholder protection and the number of CEMs at the company level. The effect is only significant in the Poisson model and only at the .01 level. This suggests some, although not very strong, evidence for PPD2.

Regarding our second hypothesis, which tests MED2 by regressing ownership concentration on our measure of shareholder protection, the Tobit model we estimate (using the logit transformed dependent variable) shows the expected negative sign (higher levels of legal shareholder protection lead to less ownership concentration). However, the effect is only moderately significant (p-value .01).

The Beta regression confirms this result, showing a negative effect of SPI on ownership concentration at the .01 significance level. This suggests little evidence for MED2. This is confirmed by our second test of MED2 that consists of regressing the firms' market capitalisation on the SPI. We first used an OLS fixed effects model, which shows the expected – albeit only marginally significant (at the .1 level) – positive effect of SPI on firm market capitalization. If we include the number of deviations from one share one vote as a control for firm-level corporate governance (model 6) the effect becomes strongly significant. This confirms previous studies that found no evidence of MED when investigating the link between legal MSP and market capitalisation at the country-level (Guillen & Capron, 2016).

To check the robustness of our results for our main independent variables, we ran the same models using the SPI calculated by Guillen and Capron (2016). The results remain essentially the same, although the effects are weaker.

To investigate our fourth hypothesis, we adopted an additional analytical strategy, by estimating a time fixed effects model for the number of CEMs for each country (table 5). The coefficient remains positive only for the Dutch sub-sample, whereas for the three others, it turns negative and is highly significant in all four cases. Moreover, the size of the effect varies markedly across the three countries with negative sign: an increase in SPI affects firm level CEMs most in the UK, followed by Switzerland, while the effect is weak in Sweden. As hypothesized, decoupling varies hence by country.

**Table 4. The impact of legal MSP on firm-level CG: Regression Results**

		H1 Dependent variable number of CEMs		H2 Dependent variable ownership concentration (largest blockholder)		H3 Dependent variable market capitalization	
		M1	M2	M3	M4	M5	M6
		OLS RE (std DV)	Poisson RE, MLE	Tobit regressio n, MLE	Beta regression	OLS fixed effects	OLS fixed effects
SPI		.009 (.019)	.044 (.018)**	-.097 (.041)**	-.038 (.018)**	.024 (.021) \$	.270 (.006)***
Market capitalization (Log) No of CEMs		-.017 (.021)	.032 (.018)*	-.259 (.020)** *	-.123 (.008)***		-.074 (.013)***
Firm age		.002 (.000)***	.002 (.000)***	-.000 (.000)	-.000 (.000)	.014 (.002)***	.010 (.003)***
Constant		Not included	Not include	1.10 (.343)** *	Not included	Not included	Not included
Countr y dummy	CH	-.674 (.293)***	-.960 (.275)***		.234 (.146)	Not included	Not included
	NL	-.306 (.265)**	-.413 (.245)	-1.142 (.109)** *	-.322 (.128)**		
	SE	.257 (.275)	-.077 (.262)	.013(.08 1)	.275 (.143)		
	UK	-.972 (.330)***	-1.604 (.315)***	-.634 (.127)** *	-.109 (.174)		
Industry, year dummies		Included	Included	Included	Included	Included	Included
N		7772 Adj. R2=.10	7772 LL(30 DF) = -8453	7437 LL(1484 4 DF) = - 17182	7437 LL(30 DF)= 4733	7772 Adj. R2=.39	7772 Adj. R2= .41
		F(29, 7743) = 31***				F(24, 6955)=241 ***	F (5, 6974)=402** *

Signif. codes: 0.001 \*\*\*, 0.01 \*\*, 0.05 \*, 0.1<sup>\$</sup>; Robust standard errors in brackets

**Table 5. Regression Results by Country**

	H1 Dependent Variable number of CEMs (Year FE)			
	CH	NL	SE	UK
SPI	-.690 (.078)***	.612 (.182)***	-.146 (.030)***	-.857 (.195)***
Market capitalization (Log)	-.018 (.018)	-.003 (.008)**	-.099 (.008)***	.135 (.008)***
Firm age	-.000 (.000)	.001 (.000) <sup>\$</sup>	.001 (.000)***	.000 (.000)***
Constant	2.531 (.312)***	-3.917 (1.188)***	-.075 (.195)	2.744 (.195)***
Industry & year dummies	Included	Included	Included	Included
N	1924	2057	2004	1787
AIC	4348.1	5190.5	6063.4	3161.4
Null vs.	2802.9	1993.1	1441.9	1740 (1786)/1576
Residual deviance (DFs)	(1923)/2177.4 (1899)	(2056)/1664.2 (2032)	(2003)/1223.6 (1979)	(1762)

Signif. codes: 0.001 \*\*\*, 0.01 \*\*, 0.05 \*, 0.1 <sup>\$</sup> Robust standard errors in brackets

## 7. Discussion

The results reported in the previous section support the extant literature on legal shareholder protection by providing evidence that law does matter for corporate governance practices and outcomes at the firm level. We find support for our second and third hypothesis according to which higher levels of legal shareholder protection at the country level lead to lower levels of firm-level ownership concentration and to higher levels of firm-level market capitalisation. These findings are consistent and robust to different analytical strategies and statistical models used. We interpret these findings as evidence that no type 2 means–ends decoupling is taking place between firm-level shareholder protection and firm-level outcomes. This is consistent with studies that investigated macro-macro means–ends decoupling (Guillen & Capron, 2016).

Our findings regarding PPD2, however, seem less clear cut. Our first two models provide some evidence for decoupling between macro-level legal rules and firm-level practices, but the results are not robust to different econometric models and significance is only moderate. Further country-by-country investigation indicates that the effect of MSP on the number of CEMs that companies use varies greatly

across countries. In three of the four countries investigated, the impact of the law is significant and shows the expected negative sign, i.e. an increase in MSP limits corporate governance practices that restrict shareholder rights, which implies that no decoupling is taking place. However, the strength of the effect varies very markedly between the UK, where the effect is strongest and Sweden, where it is weak, with Switzerland in the middle. In the Dutch case, the effect is strong, highly significant, but positive. Therefore, higher levels of MSP lead to more firm-level control enhancing mechanisms, which is a clear sign of PPD2.

The findings regarding the existence of means-end decoupling in at least some of our cases, is again broadly consistent with Guillen and Capron's (2016) study. Conversely, our findings contradict to some extent Cuomo et al.'s (2013) study of the Italian case, which did not find any evidence for decoupling between legal shareholder protection and control enhancing mechanism, but found some evidence for decoupling between law and ownership structures. While these differences in our findings may be partly due to different methodologies, they may also hint at the strong contextuality of decoupling. Indeed, common trends in legal shareholder protection may not have the same impact on firms in all contexts. This resonates with earlier findings at the country level, that found policy practice decoupling to vary depending on state capacity and the coercive nature of pressures for legal change (Guillen & Capron, 2016). However, our study shows that such differences also exist between countries with very similar levels of state capacity and legal enforcement. Moreover, the decoupling of policy and practice in at least one of our highly-developed cases cannot be interpreted as symbolic adoption under pressure from international financial institutions, which is Guillen and Capron's (2016) privileged interpretation. Rather, our findings support our fourth hypothesis and hint at a deeper theoretical point, namely that law matters to different degrees in different contexts (see Schnyder et al., 2017). Indeed, one way of interpreting our findings, which show that the impact of law is strongest in the UK, followed by Switzerland, while it is much weaker in Sweden and seems completely decoupled in the Netherlands, is by referring to the legal style that prevails in each one of these cases. Thus, in countries with a stronger tradition of litigation the threat of punishment is more credible for corporate insiders than in countries where courts and law enforcement used to play a very secondary role or where courts tended to protect the interests of corporate insiders rather than minority shareholders. This may explain that any increase in shareholder protection has a stronger impact on corporate governance practices in our common law case than in the continental civil law ones. Indeed, the 'threat of punishment' through litigation may incentivise British firms to adapt their practices more closely to the legal rules than in Northern and North-Western Europe, where more cooperative

cultures prevailed and relational contracting dominated formal contracts and enforcement through litigation (Hall & Soskice, 2001; Lubatkin et al., 2005). Switzerland does not squarely fall into this explanation, because the corporatist tradition was strong there as well. However, over the past decades, the Swiss financial centre may have moved more strongly into an Anglo-Saxon direction than the Dutch and Swedish economies (Heemskerk & Schnyder, 2008; Schnyder, 2012). The stronger internationalisation in Switzerland may explain why the role of law has become relatively more influential there than in other European cases.

## **8. Conclusion**

Important advances have been made in the field of decoupling studies in recent years, since Bromley and Powell (2012) introduced the distinction between means–ends and policy–practice decoupling. In this paper we argued that the concept remains ambiguous because it is not explicitly conceptualized as a multi-level concept. Explicitly distinguishing the macro/country level and the micro/organization level, as well as distinguishing practices from outcomes, led us to propose a typology of five types of decoupling. We applied this typology to the case of reforms legal minority shareholder protection in Europe. We showed that even studies that explicitly address the legal adoption of shareholder protection and decoupling do not directly test the link between the macro-policy level and the firm-level (Guillén & Capron, 2016). Our study remedies that shortcoming and contributes thus to our understanding of decoupling process.

In line with existing studies, we find some evidence for policy–practice decoupling (Guillén & Capron, 2016). Yet, we also find considerable differences across countries. While some of our country cases show no sign of decoupling, in some cases the effect of law on practices is weak or indeed negative, suggesting decoupling is taking place. We interpret our differing findings as indicating that law might matter in different ways in different countries. We argue that countries with a higher willingness of shareholders to use legal enforcement as a means of protecting their rights due to a more adversarial legal style, makes increases in legal shareholder protection a more credible threat to companies than in countries without a culture of litigation. More generally, this hints at a still largely underdeveloped aspect of the decoupling literature, namely, the need for a systematic focus on cross-country differences in the antecedents of different types of decoupling. Our study is limited by the small number of countries covered, which is a result of the work-intensive data-collection method. Future research is needed to provide more comprehensive comparative studies.

## Notes

1 Note that a further type of decoupling is between macro policy and micro policy, which could be termed policy-policy decoupling, but which the extant literature generally ignores or subsumes under policy-practice decoupling.

2 A fourth possibility consists in decoupling occurring when micro-level policies do not produce the expected macro-level outcomes. However, we refrain from theorising this form of decoupling, because the causal link is more tenuous: organization-level means will affect macro-level ends only in the aggregate not individually, which is why we leave that case blank in table 1.

3 A further deviation from ‘one share – one vote’ present in our sample companies is the imposition of voting caps, that limit the number of shares a large shareholder can vote. We excluded this variable from our definition of the dependent variable, because its effect on minority shareholders is not unambiguous. Indeed, voting caps limit the power of large shareholders, which might be beneficial to outside, minority ones.

4 The restriction of the transfer of shares may in some cases protect the rights of minority shareholders, because they can imply a pre-emption right for existing shareholders, which protects them from a dilution of their stake during new issues. However, in practice, these instruments are used to protect insider shareholders at the expense of outsiders and they often have as a consequence the denial of voting rights to acquirers of restricted shares. We therefore include them in the calculation of our dependent variable.



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