Corporate Governance Deviance

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CORPORATE GOVERNANCE DEVIANCE

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CORPORATE GOVERNANCE DEVIANCE

Abstract

We develop the concept of corporate governance deviance and seek to understand why, when, and how a firm adopts governance practices that do not conform to the dominant governance logic. Drawing on institutional theory, coupled with the entrepreneurship and corporate governance literatures, we advance a middle range theory of the antecedents of corporate governance deviance that considers both the institutional context and firm-level agency. Specifically, we highlight the centrality of a firm’s entrepreneurial identity as it interacts with the national governance logic to jointly create corporate governance discretion (i.e., the latitude of accessible governance practices) within the firm. We argue that as a firm’s governance discretion increases, it will be more likely to adopt over- or under-conforming governance practices that deviate from established norms and practices. Moreover, we propose that adopting a deviant corporate governance practice is contingent on the governance regulatory environment and a firm’s corporate governance capacity. We conclude by advancing a new typology of corporate governance deviance based on a firm’s over- or under-conformity with the dominant national logic, as well as its entrepreneurial identity motives. This globally-relevant study refines and extends comparative corporate governance research and enriches our current understanding of the institutional logics perspective.

Keywords: Comparative Corporate Governance, Governance Discretion, Governance Capacity, Corporate Governance Deviance; Institutional Logics, Entrepreneurial Identity.
Most comparative governance research assumes that national institutions determine firm-level corporate governance practices (Aguilera & Jackson, 2003; La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 2000). Recent research has begun to document, however, that some firms’ practices do not always acquiesce to these pressures (Bednar, Love, & Kraatz, 2015; Chizema, Liu, Lu, & Gao, 2015). Remarkably, this literature has not yet focused much on the logically prior questions of why, when, and how firms are likely to deviate from an economy’s legitimate governance practices, and to adopt practices that are non-conforming.

The extant literature also fails to account for the fact that some firms deviate by adopting governance practices that fall short of the country’s governance standards (under-conform), while other firms deviate by exceeding these prevailing governance norms (over-conform). For example, consider the corporate governance practice of board composition in the context of the U.S. shareholder-oriented logic. In spite of the prevailing logic that U.S.-based boards should be composed of a majority of outsiders, some pre-IPO firms operate with a majority of insider directors, thereby under-conforming with respect to the dominant governance logic (Garg, 2013). Conversely, other firms removed all inside directors except the CEO and over conform to prevailing norms (Joseph, Ocasio & McDonald, 2014). We refer to both of these situations as intentional deviations from standards set by the legitimate practices and normative expectations advanced by the dominant national governance logic as corporate governance deviance.

To understand why, when, and how firms engage in governance deviance, we develop a middle range theory of corporate governance deviance which draws on institutional research and turns our attention to the notion of entrepreneurial identity. Although there is a rich literature in institutional theory on the complexity of the institutional field (Greenwood, Raynard, Kodeih, Micelotta, & Lounsbury, 2011), institutional pluralism (Kraatz & Block, 2008) and the presence
of co-existing institutional logics (Thornton, Ocasio, & Lounsbury, 2012), we are primarily interested in the firm’s *agentic* deviant behavior within the context of the prevailing country-level governance logic. By stipulating this boundary condition, we are able to push forward the discussion on the classic debate in institutional theory regarding the tension between the dominant institutional pressure and agentic behavior (Zucker, 1991), and encourage its empirical testing and falsification.

While the institutional literature has made impressive strides in enhancing our understanding of organizational behavior and outcomes, we believe that this literature has become too centered on institutional forces and in turn pays less attention to organizational forces. In effect, DiMaggio and Powell (1991) long ago urged institutional scholars to bring organizational agency and interests back into the study of institutional processes, in order to better delineate the link between micro- and macro-levels of analysis. Recently, Greenwood, Hinings, and Whetten (2014) have criticized the institutional literature for focusing too much on external institutional forces and neglecting our understanding of organizational agency, and we concur with their viewpoint.

Thus, in this study, we advance an organizational agentic-based view within an institutional pressure to conform by advancing a middle range conceptual model that explains the antecedents of organizational deviance. In particular, our framework seeks to uncover the precursors of corporate governance deviance within the context of a specific national governance logic. To do so, we integrate national-level forces and firm-level socio-cognitive agentic behavior and seek to explain why most firms conform yet some firms do not conform to institutional pressures. We rely on the socio-cognitive stages of agency (Thornton, et al., 2012) yet we place the concept of entrepreneurial identity (Fauchart & Gruber, 2011; Navis & Glynn,
2010) at the core of our process model. We conceptualize entrepreneurial identity as the organizational self-claims associated with the willingness to take risks, be proactive, and seek innovation. Our fundamental insight is that the centrality of a firm’s entrepreneurial identity is the key trigger of governance deviance because it grants more meaning to deviant behavior than the meaning provided by the prevailing governance logic.

To work with the construct of deviance, we depart from the seminal sociological understanding of deviance behavior (Merton, 1938) as an individual action that violates social norms including formally enacted rules as well as informal nonconformity. While Merton (1968) also utilizes a middle range approach to develop his strain theory of socially deviant behavior by individuals, more recent organizational research expands on Merton’s work by exploring organizational deviance as a creative opportunity (Mainemelis, 2010). We build on extant research on organizational deviance (Heckert & Heckert, 2002; Mitchell & Ambrose, 2007; Spreitzer & Sonenshein, 2004; Warren, 2003) to characterize corporate governance deviance as a firm’s intentional adoption of governance practices driven by its entrepreneurial identity.

Our conceptual argument to understand the source, evolution, and ultimate form of governance deviance is based on the following three stages in the socio-cognitive process towards deviant behavior (Thornton et al., 2012). First, we maintain that firms go through an awareness stage where they begin to recognize alternative governance practices. Second, we argue that firms in which entrepreneurial identity is more central to their core identity consider a greater range of practices and move to a stage where deviance becomes more accessible than do firms in which entrepreneurial identity is less central. Third, we claim that a deviant practice is more likely to be adopted in the activation stage, when governance discretion falls outside the
legitimate practices specified by the prevailing governance logic. In addition, based on the comparative governance literature, we believe that two contingencies are likely to influence the activation of governance deviance: the extent of regulatory enforcement within the dominant governance logic, and firms’ governance capacity to implement new governance practices. We conclude by advancing a typology of corporate governance deviance in which we posit that firms’ entrepreneurial identities define their motives for engaging in non-conforming practices—allowing us to refine our notion of deviance through over- and under-conformity.

Based on these core claims, we make several contributions in this multi-level study of governance deviance. First, we push the frontiers of comparative corporate governance research by proposing a more holistic, yet nuanced categorization of dominant governance logics present in a wide variety of national economies. Second, we enrich and extend institutional research by examining the coalescence of firm entrepreneurial identity as the primary driver of organizational agency, with institutional pressures to conform. Third, we respond to calls for more contextually-embedded examinations of entrepreneurship (Bowen & De Clercq, 2008) and connect those insights to the deployment of governance practices. And finally, we advance a new typology of corporate governance deviance that can guide future research.

THEORETICAL FOUNDATIONS

In this section, we present the building blocks of our conceptual model. We begin by discussing how the prevailing national logic translates into a single dominant governance logic within each national context by combining economic sociology with comparative governance literature. We also articulate the primary boundary condition underlying our middle range theory of corporate governance deviance. Second, we refine and extend the institutional logics perspective (Thornton et al., 2012) by describing the stages of the socio-cognitive process that
we draw on to explain why firms adopt deviant governance practices.

**From Institutional Logics to National Governance Logics**

Institutional logics are the socially-constructed assumptions, values, beliefs, formal and informal rules, and practices that equip organizations with a toolkit to interpret their experiences, direct their attention towards specific choices, define future goals, and limit their potential organizational choices (Berger & Luckmann, 1966; Friedland & Alford, 1991; Thornton et al., 2012). Thus, institutional logics directly shape organizational action through the process of category identification and attention structuring. Although logics operate at different levels, we draw on Friedland and Alford’s (1991: 232) foundational thesis that societal institutions and their underlying institutional logics influence organizational interests. We agree with their central premise that national-level logics are the key institutional level mechanism defining normative and regulative organizational governance practices (Doidge, Karolyi, & Stulz, 2007) as well as prescribing social legitimacy norms (Aguilera & Jackson, 2003).

Ample research demonstrates that nation-state institutional logics strongly affect organizational outcomes and their legitimation. Examples include the organization of railroads (Dobbin, 1994) and inter-organizational learning effectiveness across technological areas (Vasudeva, Alexander, & Jones, 2015). These studies demonstrate the non-trivial role of national institutional logics, illustrating that organizations tend to adopt nationally-scripted practices and operate within an acceptable zone of conformity$^1$ (Bundy & Pfarrer, 2015:353). We define organizational behavior and practices falling within the zone of conformity as those that adhere to the dominant legitimate logic.

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$^1$ We see “zone of conformity” as a similar term to what Simon (1945) referred as a “zone of acceptance;” Barnard (1938) discussed as a “zone of indifference;” and Rindova, Pollock, & Hayward, (2006) articulated as a “range of acceptability.” We restrict its meaning to be relative to a specific dominant governance logic.
A challenge in comparative corporate governance research has been to advance existing typologies of corporate governance systems beyond the shareholder-stakeholder-oriented models (Aguilera & Jackson, 2010) in order to include emerging and transition markets which occupy an increasingly large portion of today’s global economy. We draw on notions of national institutional logics from political economy and economic sociology (Smelser & Swedberg, 2010) to derive four ideal-type national governance logics pertaining to how firm resources and authority are created, retained, and distributed within a national setting.

In particular, we seek to expand the shareholder-stakeholder dichotomy to propose that the pillars of state, market, and society shape one another historically in significantly different ways that in turn generate unique country-level institutionalized logics. Indeed, O’Riain (2000) combines these three pillars to identify four types of national economies: a liberal type that promotes market dominance, a social rights type that sets social limits to market strategies, a developmental type in which market strategies are coordinated by the state and society, and a socialist type in which the state seeks to retain power and to subsume market and society. We propose that each of these four national institutional logics embraces a distinct governance logic capturing the rights and responsibilities of different stakeholders in the firm, and the salience of each pillar.

The liberal country type endorses a shareholder-oriented governance logic where the market defines the firm’s primary goal and its governance, prioritizing the maximization of shareholder value (Shleifer & Vishny, 1997) to provide firms with legitimacy. This logic is predominant in Anglo-Saxon countries. Countries assigned to this type follow detailed and precise binding governance regulation (i.e., “hard law”) such as the United States’ 2002 Sarbanes-Oxley Act.
The social rights country type adopts a *stakeholder-oriented governance logic* prototypical of Germany where the primary goal of the firm and its governance is to balance the interests of all stakeholders involved in the firm (Jackson, 2005). These countries tend to enact more flexible governance regulation based on “comply or explain” codes of good governance, which exert normative pressure to adopt certain practices in line with the country’s governance logic (Aguilera & Cuervo-Cazurra, 2004). Several economies within Western Europe, such as Germany, Sweden, and Spain, follow this governance logic.

The developmental country type adopts a *relational-oriented governance logic* where the firm’s primary goal is to contribute to the country’s economic development. This hybrid governance logic aspires to incorporate values, norms, and beliefs from the stakeholder and shareholder governance logics, but has also historically nurtured strong relational ties to other economic actors to which it must attend (Chang, 2003; Schneider, 2013). Countries with a relational logic are likely to develop more flexible, multi-tiered norms, such as the varying levels of governance requirements offered to firms listed on the Brazilian stock exchange or different normative expectations for South Korea’s core (chaebols) versus peripheral firms.

Finally, the socialist country type adopts a *statist-oriented governance logic* where the primary goal of the firm and its governance is to perpetuate state authority and power in the overall economy (Pearson, 2005). To ensure its fulfillment, prototypical countries such as China and Russia function within an ostensibly free market economic system, yet the state is the dominant actor through direct ownership or indirect influence (Inoue, Lazzarini, & Musacchio, 2013; Lin & Milhaupt, 2013).

In the interest of conceptual clarity, we make a simplifying assumption that each country operates under a single dominant corporate governance logic for all domestic firms or foreign
subsidiaries operating within a given national territory. This boundary condition enables us to pursue a falsifiable middle range theory of governance deviance. This assumption is conceptually supported by Besharov and Smith’s (2014) argument that all nations operate with a multiplicity of logics, but that there is always a single logic that dominates all others. It is also empirically corroborated by Jones, Maoret, Massa, and Svejenova’s (2012) study of the rise of modern architecture, whereby firms adhere to a single national-level dominant logic to defend their modus operandi. Of course, all organizations navigate within multiple governance logics to a certain extent (Greenwood et al., 2011; Pache & Santos, 2010). This is particularly true within the field of comparative corporate governance whereby foreign logics sometimes compete for dominance with the prevailing national logic (Djelic & Quack, 2010). However, the nation-state remains the sovereign entity in today’s social order and this simplifying assumption enables us to focus on the interplay between a national dominant governance logic and firm agency in their selection of a particular governance practice.

A dominant governance logic defines how firms are expected to conduct themselves if they seek to gain legitimacy through both their internal corporate governance practices (e.g., the role of the board, managerial incentives, and internal controls), and their responses to external governance mechanisms (e.g., the market for corporate control, media influence, and external auditing) (Aguilera, Desender, Bednar, & Lee, 2015). In sum, while we argue that firms generally conform to the dominant governance logic due to the considerable pressures to be perceived as legitimate (Zimmerman & Zeitz, 2002), not all firms seek institutional legitimacy above all else (Oliver, 1991). In the following section, we seek to explain why some firms deviate from the norms established by the dominant governance logic in which they are embedded.
The Intersection between Institutional Logics and Agentic Behavior

As suggested above, a classic challenge within organizational theory is to resolve the tension between institutional pressures and agentic behavior (DiMaggio, 1988). The institutional logics perspective reasons that all agency, including organizational agency, starts with ‘situated awareness.’ Specifically, most organizations’ awareness is driven by top-down attentional processes whereby organizations largely conform to the prevailing institutional logic (Meyer & Scott, 1983). In contrast, some organizations’ awareness is shaped by a combination of both top-down and bottom-up attentional processes. In the latter, more complex case, organizational agency is possible when the organization’s identity claims conflict with the prevailing logic (Friedland & Alford, 1991).

The Institutional Logics Perspective (ILP) proposes a framework composed of three stages leading towards organizational agency (Thornton et al., 2012). In the first stage, when the organizational identity claims conflict with the prevailing logic, the organization becomes aware of alternative courses of action, and the potential for agency. If the conflict between the organization’s identity and the prevailing logic is pronounced enough, in the second stage, the opportunity for organizational agency becomes enhanced, or what Thornton et al. (2012:92) refer to as being “readily accessible to attend to salient environmental stimuli” [emphasis added]. However, accessibility does not guarantee the third stage, which is called activation. ILP theorists attribute activation of the agentic behavior to situational misfit between the institutional logic and the nature of the organizational decision to be taken. These three socio-cognitive stages help us unpack the dynamics behind organizational agency, and we elaborate on them in the remainder of this study.

Although the ILP has provided valuable insights concerning when organizational agency
can occur for some organizations but not others within the same institutional context, it is fairly vague as to specifying how and when, the micro-foundations of cognition unfold within organizations. There is also limited exploration about the socio-cognitive process of awareness, accessibility, and activation. Thus, most previous research examines conflicting coexisting institutional pressures within the institutional environment and treats the socio-cognitive processes operating within the firm as a “black box” (e.g., Joseph et al., 2014; Lee & Lounsbury, 2015; Navis & Glynn, 2010). Hence, there is a need to refine ILP insights into explicit organizational processes, since organizational studies need deeper understanding of the specific antecedents of organizational practices (Greenwood et al., 2014).

Relatedly, the actual catalyst of organizational agency is largely unspecified as organizational identity is a wide-ranging construct to which to attach organizational action (Albert & Whetten, 1985). In this study, we also draw from the entrepreneurship literature in order to better explain and predict the adoption of governance practices that do not conform to prevailing norms and practices. Specifically, we conceptualize the adoption of deviant corporate governance practices as an entrepreneurial act infused with meaning and expression of self-identity.

**SOCIO-COGNITIVE PERSPECTIVE ON CORPORATE GOVERNANCE DEVIANCE**

Based on the theoretical foundations articulated above, we are now properly positioned to lay out our theoretical model explaining corporate governance deviance. Figure 1 graphically summarizes the combined institutional and organizational level factors central to our model.

[Insert Figure 1 about here]

**Competing Forces for Meaning and Governance Discretion**
We begin with the two dimensions that vie for a firm’s attention: (1) the top-down institutional logic which exerts pressures to conform in order to achieve social legitimacy, and (2) the bottom-up organizational values, meanings, and goals which interpret external pressures and weigh those imposed norms against a firm’s identity claims. In essence, the identity claims of the dominant governance logic are in conflict with the organization’s identity. For firms to resist institutional conformity pressures, they must first become aware of alternative practices and behaviors that do not conform to the prevailing logic. In our context, we label this stage the *governance practice awareness* as shown in the bottom of Figure 1.

Institutional research contends that awareness occurs through organizational identity claims, and it is well established that organizational identity is the primary filter by which a firm makes sense of and responds to institutional pressures (Kodeih & Greenwood, 2014). According to Ashforth, Rogers, and Corley (2011), the organization’s identity and the institutional environment are reciprocally tied to each other, whereby firm-level identity claims either conform to or deviate from the prevailing institutional norms.

Furthermore, Ashforth et al. (2011) astutely argue that institutional norms typically allow for some discretion, but this range of behavior has its limits. With respect to corporate governance practices, Golden-Biddle and Rao (1997) observe that organizational identity drives perceptions and behavior within the boardroom where governance practices are deliberated and chosen. Similarly, Canella, Jones, and Withers (2015) describe how family firms’ organizational identity greatly influences their governance choices. In other words, identity conflicts between the prevailing logic and potential organizational practices are likely to trigger the consideration of alternative logics within the organization (Seo & Creed, 2002).

However, organizational identity is a rather broad construct and institutional research is
relatively silent as to which specific identity claims matter to make agentic behavior possible. The entrepreneurship literature is instructive here with its recent focus on entrepreneurial identity as an important sub-dimension of organizational identity which influences subsequent opportunity perceptions and guides entrepreneurial actions. Navis and Glynn (2011: 480) define entrepreneurial identity as “the constellation of claims around the founders, organization, and market opportunity of an entrepreneurial entity [organization] that gives meaning to questions of ‘who we are’ and ‘what we do’” and argue that “conformity to established standards is antithetical to entrepreneurship, which tends to be more concerned with novelty, distinctiveness, and nonconformity” (479). They also note that firms vary in their awareness of the possibilities of digressing from established norms.

In related work, Fauchart and Gruber (2011: 938), drawing on the theory of social cognition, demonstrate that entrepreneurs’ conceptions of their social selves (i.e., entrepreneurial identities) are “manifested in their social motivations, bases of self-evaluation, and views of the relevant social groups,” that, in turn, imprint organizational decision making. Against the backdrop of this research, we argue that the centrality of an organization’s entrepreneurial identity as part of its overall organizational identity is the missing link in explaining the source of agentic behavior given isomorphic pressures.

The construct of entrepreneurial identity was originally developed in the context of individual founders and new entrepreneurial ventures. Yet, we believe that it is a useful construct to apply to the overall organizational self-concept as it refines the specifics of organizational identity related to proactiveness and willingness to innovate and/or ignore prevailing norms. Indeed, previous research repeatedly shows that social actors who either see themselves as excluded from the majority, or are confident enough to separate themselves from
others, are then most likely to avoid conforming to the status quo (Phillips & Zuckerman, 2001). As such, an organization’s entrepreneurial identity that is relatively central to the overall organizations identity makes it much more likely to take risks and/or have the confidence to pursue unproven ideas and practices (Navis & Glynn, 2011).

In addition, we claim that entrepreneurial identity is applicable to all organizations that are early adopters of non-conforming practices. As Miles and Snow (1978) cogently argue, every organization in existence must address its own unique entrepreneurial problem. They show that even though Defender-type organizations are not known for their entrepreneurial instincts and practices, they still must develop an entrepreneurial identity consistent with the Defender lens to effectively address their entrepreneurial challenges.

Of course, some firms possess multiple identities, with some identities being more central, or coherent, than others (Patvardhan, Gioia, & Hamilton, 2015). Clearly, organizations whose entrepreneurial meaning of self-concept is more central to their organizational identity are more likely to found a new venture (Hoang & Gimeno, 2010). As the firm becomes more established, its entrepreneurial identity is often challenged by other identities (Gioia, Patvardhan, Hamilton, & Corley, 2013). Hence, the firm’s ability to maintain a highly centralized entrepreneurial identity is a key determinant of the adoption of new practices.

In effect, some organizations, such as new entrepreneurial ventures, may have highly-centralized entrepreneurial identities; while other organizations, such as highly-regulated and bureaucratic organizations, may possess relatively peripheral or non-existent entrepreneurial identities (Haynie, Shepherd, Mosakowski, & Earley, 2010). For example, Wright, Hoskisson, Busenitz, and Dial (2000) note that entrepreneurially-minded managers seeking to maintain the entrepreneurial identity of their firms will rely more extensively on heuristics and individual
beliefs, while managers who are less invested in the firm’s entrepreneurial identity typically
depend on systematic decision-making that draws heavily on precedents established by other
organizations. In this regard, we would expect that the former are more likely to develop
awareness of practices outside of the prevailing norms, while the latter are more likely to
conform to the status quo.

In addition, Webb, Tihanyi, Ireland, and Sirmon (2009) argue that firms with more
centralized entrepreneurial identities are relatively alert to new practices and opportunities, even
if they are not perceived by outsiders to be legitimate with respect to existing institutional norms.
Further, these researchers describe how the impetus for this opportunity recognition comes from
the firm’s entrepreneurial drive to create more efficient and effective means and/or ends. Once
again, we observe that an organization’s entrepreneurial identity enables it to consider
alternatives to established practices, even when those standard practices are perceived as under
conforming to norms set by the institutional environment.

As depicted in Figure 1, the initial stage of awareness of the potential for adopting non-
conforming governance practices does not automatically lead to adoption because departure from
established institutional norms can reduce a firm’s social legitimacy (Judge, Douglas, & Kutan,
2008), and in turn, threaten its survival. In sum, the firm’s entrepreneurial identity broadens its
awareness of governance practices outside the prevailing governance logic and therefore expands
the range of possibilities that the firm might consider; and all firms possess an entrepreneurial
identity, but only a select few make that identity central to their organizational identity.

Corporate Governance Discretion. We next draw on Hambrick and Finkelstein’s
(1987) construct of managerial discretion, which they conceptualize as the “theoretical bridge”
between the firm’s external and internal constraints, coupled with its executives’ human agency.
We apply this construct to the comparative governance literature by proposing that although the prevailing governance logic prescribes certain governance practices as legitimate, thereby constraining the realm of legitimate governance practices, a firm’s entrepreneurial identity prompts the consideration of governance practices which exceed or fall below established legitimacy norms. We argue that the prevailing governance logic and the firm’s entrepreneurial identity interact with each other to yield corporate governance discretion, which we define as the firm’s cognitive latitude of action to consider the adoption of a deviant governance practice. In other words, governance discretion is a set of possible governance practices that are contemplated, some within and others outside the zone of conformity, as specified by the prevailing governance logic.

In sum, governance discretion is the by-product of two different forces. On the one hand, agentic organizational characteristics such as experience, scanning, and insight can expand discretion (Hambrick & Finkelstein, 1987: 373), which we argue emanates from the firm’s entrepreneurial identity. On the other hand, the normative context delineates the legitimate range of behaviors as specified by the prevailing governance logic. Indeed, Phillips & Zuckerman (2001) show how the notion that “context matters” is an important new insight advanced to help us better understand social conformity dynamics. Thus, a firm’s entrepreneurial identity offers a catalyst for becoming more aware of a broader set of governance practices beyond those that are legitimated by the prevailing governance logic. As Pache and Santos (2013) argue that in the absence of awareness, accessibility is not even an option for a firm. In light of these arguments, we propose:

Proposition 1: The more central a firm’s entrepreneurial identity is to its overall organizational identity, the greater will be its corporate governance discretion to
consider non-conforming practices with respect to a dominant governance logic.

From Governance Discretion to Governance Deviance

Governance discretion provides the set of potential actions which are accessible as cognitive choices driven by a firm’s entrepreneurial identity, and will determine whether a firm is likely to follow inertial versus strategic choices when evaluating governance practices. Yet, the accessibility of alternative governance practices will not automatically determine the activation or adoption of new governance practices outside the existing logic. However, governance discretion will make actual deviance much more likely.

Organizational research recognizes that managers have discretion, but that they are also confined by institutional pressures and legitimacy norms. For example, Hambrick and Finkelstein state that “a manager’s discretion has no rigid bounds: it is limited in part by his or her own awareness and repertoire, as well as by constraints that are largely unstated and untested rather than explicit” (1987: 371). Dephouse (1999) discusses this interplay between discretion and legitimacy in his thesis that “firms seeking competitive advantage should be as different as legitimately possible” [italics added] (p. 148). Similarly, Crossland and Hambrick (2007, 2011) illustrate the role of national-level institutions in demarcating managerial discretion and assume that boundaries on managerial actions mostly conform to the prevailing logic.

In this study, we challenge this automatic conformity assumption and extend the construct of governance discretion to include non-conforming practices. In particular, we argue that organizations might adopt corporate governance practices that fall outside the zone of conformity prescribed by the prevailing governance logic. We identify these non-conforming governance practices adopted outside the zone of conformity as deviant governance practices.

A certain degree of governance discretion is a necessary cognitive condition for an
organization to adopt a deviant governance practice. In order for governance deviance to be
activated, a firm must first experience cognitive dissonance between the prevailing governance
logic and the firm’s entrepreneurial identity and goals. Therefore, governance deviance
activation is only possible when organizations do not slavishly adhere to a particular logic
(Besharov & Smith, 2014). In effect, as governance discretion increases, a firm becomes more
likely to activate an alternative and accessible governance logic or the combination of the
existing logic with goals and schemas outside the established zone of conformity (Seo & Creed,
2002).

The activation of governance deviance is possible because firms can cognitively envision
a future that challenges the prevailing governance logic (Thornton et al., 2012) due to
incongruence with their intrinsic entrepreneurial identity and the awareness of other available
and accessible practices. Supporting this argument, Cho and Hambrick (2006) show in the
airline deregulation context that firms with a more entrepreneurial attentional perspective are
more likely to activate other strategies that they have become aware of, even when these choices
may be less accessible (non-conforming). Likewise, Glynn (2000) demonstrates how a
symphony orchestra can shift from the most accessible aesthetic logic to a blend of “also present
but less accessible” market logic driven by commercial motives. The key issue here is that the
entrepreneurial identity needs to be salient enough to provide awareness of the opportunity and
increase the likelihood that a firm considers a source of action beyond the zone of conformity.
Thus, greater governance discretion makes accessible a wider range of governance choices, and
increases the likelihood to adopt deviant governance practices.

An illustration of how governance discretion enables governance deviance within the
shareholder-oriented dominant logic is the American supermarket chain, Whole Foods. This
iconic firm has a long corporate history of envisioning relatively high governance discretion in compensation practices, often in the name of “conscious capitalism.” Even though Whole Foods is embedded in a shareholder-oriented governance logic, its compensation practices are much more aligned with the stakeholder governance logic. For example, we would argue that a deviant governance practice, such as capping of the co-CEOs’ salaries at 19 times the average employee salary (Rubin, 2010), is triggered by its entrepreneurial identity to be relatively open to deviate, which leads to the accessibility of different practices, and expands its governance discretion.

Conversely, in the context of the statist governance logic, there is the example one of China’s largest banks, Agricultural Bank of China, known for its distinct entrepreneurial identity based on new technologies (Bloomberg, 2014). This state-owned bank reports remarkably low executive salaries, even by Chinese compensation standards. We posit that it possesses the governance discretion to consider compensation practices that fall outside the prevailing logic’s zone of conformity, and is thus more likely to adopt deviant practices. In light of these arguments and illustrations, we propose,

*Proposition 2: The greater the corporate governance discretion, the more likely a firm will be to adopt a deviant governance practice within a dominant governance logic.*

We now turn to two key contingencies that are predicted to moderate the governance discretion-governance deviance relationship. The first moderator, regulatory enforcement, works at the country-level and it is expected to be an important modifier of governance logic. The second moderator, governance capacity, operates at the firm level and it seeks to evaluate the ability to implement, beyond the cognitive latitude and accessibility of the opportunity. Figure 1 illustrates these two contingencies.
The Contingent Influence of Extent of Regulatory Enforcement

Regulatory enforcement is an essential institutional dimension that influences all economic exchanges and can vary substantially from economy to economy (North, 1990). Although previous comparative corporate governance research has traditionally focused on the influence of the type of legal system (La Porta et al., 2000), more recent studies note that the extent of regulatory enforcement may be a more important determinant of corporate behavior. We follow Banerjee (2011: 161) in defining the extent of regulatory enforcement as the degree to which government monitoring is consistent, and the severity of punishment for violating rules and laws is predictable.

Pache and Santos (2010) identify regulatory authorities as a key contextual contingency which can coerce organizations to behave in a certain way due to their legal power, and thus affect a firm’s compliance or non-compliance with socially-desirable practices. The extent of regulatory enforcement matters because it varies across countries, while the de jure content of national laws tends to be more homogenous (Malik, 2014). Since corporations are legally sanctioned by the state, the regulatory environment represents a critical set of institutional pressures which create accountability standards and enforce legitimacy norms for organizational practices (Edelman & Stryker, 2005), and consequently should influence the firm’s adoption of deviant corporate governance practices.

When firms have access to a wider array of governance practices (i.e., greater corporate governance discretion), their chosen governance practice is still likely to be contingent on how strict and “rule-like” the regulatory enforcement is. Consequently, a firm might be interested in adopting a novel governance practice leading to deviance from the national governance logic; however, the regulatory sanctions may be extensive, predictable, and costly if the adopted
governance practice falls outside the zone of conformity. In contrast, a looser enforcement of governance regulation might provide fuzzier normative pressure, weak coercive power, or no consequences whatsoever for a firm that is aware of and considering the adoption of an accessible deviant governance practice.

The extent of regulatory enforcement is shaped by political (Roe, 2003) and cultural (Licht, 2017) institutions, and it varies across the four distinct governance logics. In economies where shareholder-oriented governance logic prevails, corporate governance regulation is typically explicit, and the coercive sanctions for violating regulations are precise (Abbott & Snidal, 2000). This “hard law” governance regulation is usually strictly and predictably enforced, with severe sanctions to transgressors (Beck, Demirgüç-Kunt, & Levine, 2000). However, in social rights economies following a stakeholder-oriented governance logic, corporate governance regulation allows for more variation through “soft law” such as codes of good governance which are non-binding (Aguilera and Cuervo-Cazurra, 2004), normatively enforced, and coordination among affected parties is encouraged (Aguilera & Jackson, 2003). Societal normative pressures are more salient and a wider compliance variation is negotiated. Finally, there are economies where the governance rules and regulations exist, but quasi-legal and illegal transgressions are idiosyncratically addressed outside coercive or normative regulatory mechanisms. Such a situation is often found in economies dominated by relational and statist governance logics. Economies in this context can be described as “limited law” regulatory environments (Abbott & Snidal, 2000).

To properly identify our theoretical model of corporate governance deviance, as shown in Figure 1, we incorporate the extent of regulatory enforcement by looking at the influence of three regulatory types found in the four logics: hard law’s strict regulatory enforcement, soft law’s
flexible regulatory enforcement, and limited law’s lax regulatory enforcement. We expect that in firms operating in economies operating with a hard law approach, it is more difficult to not comply with the relatively explicit and consistently applied normative standards.

In contrast, the soft law regulatory environment accounts for the adoption of practices outside the zone of conformity and the law deliberately permits a range of acceptable practices and does not prescribe a rigid set of practices. For example, as Cioffi (2010: 81) states: “In contrast with the litigation-prone American model, the German corporate governance regime factored negotiation within the institutional framework of the corporation rather than enforcement of rights through adjudication.” Thus, in this case, the stakeholder-oriented governance logic allows practices outside the zone of conformity, but these would be categorized as not complying with norms.

In the context of relatively lax regulatory enforcement which can be characterized as one where regulatory voids are common and standards are obtuse, there is a highly constrained or non-existent will to prosecute and implement sanctions in a consistent fashion (Jackson, 2007). Put plainly, firms operating in such a governance environment might easily consider the adoption of a governance practice incongruent with existing rules and laws and they are unlikely to be inhibited or even stopped by the law due to its weak enforcement.

Illustrating these differences in the context of regulation regarding disclosure of executive compensation, the United States’ shareholder-oriented governance logic is prescriptive and explicit as to how executive compensation should be disclosed — all listed firms must abide by those regulations or they will suffer swift and extensive financial penalties (Securities & Exchange Commission, 2015). As a result, firms are less likely to deviate from compensation disclosure regulations within this governance environment. In contrast, since 2010, Brazil’s
economy operates within a limited law regulatory environment which requires all publicly-listed firms to disclose the compensation of top executives and board members, but more than one-quarter of the firms ignore this disclosure requirement (Barros, da Silveira, Bortolon, & Leal, 2015). In sum, even if a firm has a reasonably wide governance discretion with an interest in adopting a deviant governance practice, it will be less likely to adopt that practice if the country’s regulatory enforcement is explicit and coercive rather than flexible or limited. Hence, we propose:

*Proposition 3: The extent of regulatory enforcement negatively moderates the corporate governance discretion-governance deviance relationship within a dominant governance logic.*

The Contingent Influence of the Corporate Governance Capacity

The entrepreneurship literature argues that all value-creating entrepreneurial activity first requires the ability to recognize an opportunity and then to exploit that opportunity (Alvarez & Barney, 2005). This is consistent with the ILP whereby all deviation begins with awareness created by identity claims leading to accessibility and then activation. However, in order for the entrepreneurially-oriented firm to actually exploit an opportunity, or transition from accessibility to activation, its chances of exerting agency are greatly enhanced by possessing or having access to the necessary tangible and intangible resources or “capital” to do so (Brush, Greene, & Hart, 2001).

Some firms, particularly mature ones, have an extensive capacity to deviate from established norms and practices if they so choose. For example, Zahra (1996) demonstrates that both financial liquidity and long-term institutional ownership levels within established firms are positively associated with corporate entrepreneurship in developed economies. Similarly,
Filatotchev, Wright, Buck, and Dyomina (1999) report that firms in transition countries which possess the necessary financial, human, and social capacity to restructure the enterprise tend to be more responsive to market pressures, and are rewarded in the global economy when they act more entrepreneurially.

Other firms, particularly startup enterprises, tend to work with very limited capacity, often due to financial capacity constraints (Brush et al., 2001). For example, Baker and Nelson (2005) observe that individual entrepreneurs might discover new opportunities, but lack the appropriate financial capacity to pursue that opportunity. In sum, the entrepreneurship literature clearly asserts that entrepreneurial behavior requires more than just the socio-cognitive awareness and recognition of an opportunity; it also necessitates a sufficient portfolio of resources to pursue that opportunity (Smith, Judge, Pezeshkan & Nair, in press).

While the entrepreneurship literature traditionally focuses on the creation of new goods and services, the same may be true with respect to the adoption of new corporate governance practices that may deviate from established practices. We refer to this important capability as the firm’s governance capacity, and we define it as the aggregate financial, human, social, and moral capital available to a firm to intentionally adopt deviant governance practices. As shown in Figure 1, we expect that corporate governance capacity moderates the governance discretion-governance deviance relationship by enabling or constraining the firm in its socio-cognitive activation process surrounding deviant behavior.

As suggested by our definition above, a firm’s governance capacity may draw upon many different forms of capital. At its most basic level, the firm must possess the necessary financial capital to invest in a governance practice which is different from the prevailing governance logic, since this form of capital reduces the organization’s dependence on the external environment,
and enables the board of directors to pursue alternative courses of action (Hillman & Dalziel, 2003). In addition, the firm must also possess the necessary human and social capital to act differently from others in its environment, particularly within the boardroom (Haynes & Hillman, 2010). For example, Fortune 500 firms are often predominantly owned by institutional investors. If a firm wants to deviate from established norms and practices, its board and executive team must effectively leverage their collective human and social capital with their institutional investors to do so (Zahra, 1996). Finally, the firm must possess the moral capital to provide the capacity to deviate from established norms even when such practices are viewed as excessively focused on the common good (Godfrey, 2005) or immoral (Webb et al., 2009).

In order to illustrate the moderating role of governance capacity on the adoption of compensation practices that deviate from the prevailing governance logic, we turn our attention to Volkswagen (VW), Europe’s largest car manufacturer. VW is headquartered in Germany, an economy dominated by a stakeholder-oriented governance logic. In 2012, VW CEO Martin Winterkorn’s pay nearly doubled to 23 million euros as he became the highest paid CEO in Germany’s top 30 DAX-listed companies (Rogers, 2012), clearly incongruent with the country’s governance norms which aspire to equity for all and modest compensation premiums relative to employees. VW certainly has extensive financial and human capital to compensate its CEO above German standards (Forbes, 2015), yet local reporters, seemingly shocked by Winterkorn’s compensation, peppered him with questions, asking if auto executives are becoming “the new bankers when it comes to pay” (Rogers, 2012: 3). Remarkably, Winterkorn resigned from VW on September 23, 2015 due to the diesel emissions scandal, but is still expected to receive over $66 million in severance compensation (Boston, 2015). In this example, VW possessed the governance discretion to activate a practice outside of the governance logic’s zone of conformity,
which was facilitated by the organizational governance capacity to support it. In sum, we propose:

*Proposition 4: The extent of corporate governance capacity positively moderates the corporate governance discretion-governance deviance relationship within a dominant governance logic.*

**A NEW TYPOLOGY OF CORPORATE GOVERNANCE DEVIANCE**

Recall that corporate governance deviance is a nonconforming behavior relative to the zone of conformity defined by the dominant national governance logic. It is triggered by the salience of a firm’s entrepreneurial identity to proactively explore new ideas, and is influenced by the extent of cognitively accessible governance discretion. To deepen our understanding of governance deviance, it is critical to return to our point of departure where a firm’s entrepreneurial identity drives its awareness of opportunities, provides access to potentially deviant practices, and ultimately makes it more likely to adopt a non-conforming practice.

In this section, we propose a typology of corporate governance deviance summarized in Table 1. We are guided by two key conceptual dimensions: (1) entrepreneurial motives emanating from inside the firm (Wry & York, in press), and (2) normative expectations emanating from outside the firm (Heckert & Heckert, 2002). Related to our first dimension, existing research identifies two main motives of entrepreneurial activities which are commercial and social motivations. Commercially-motivated entrepreneurial organizations focus their attention and meaning on creating economic value, and socially-motivated entrepreneurial organizations emphasize the creation of social value (Miller, Grimes, McMullen, & Vogus, 2012). These two entrepreneurial motives are conceptualized along a continuum, and can be
present in nonprofit, for-profit, or governmental sectors. For purposes of explication, we discuss each end of the continuum as two distinct categories of entrepreneurial motives.

[Insert Table 1 about here]

Research on organizational identity and entrepreneurship explains how founders and their firms’ entrepreneurial identities define and shape entrepreneurial motives. Most notably, Fauchart and Gruber (2011) argue that entrepreneurial motives emerge from the entrepreneurial identity of the firm and demonstrate that commercial entrepreneurial motives emanate from a darwinian entrepreneurial identity focused on economic self-interest, professionalism, and being a competitor; while social entrepreneurial motives are driven by communitarian and missionary entrepreneurial identities focused on to the community, positively affecting others’ well-being, and defining themselves as authentic and responsible contributors. Organizational motivations to pursue social entrepreneurship reflect an underlying identity of compassion in terms of prioritizing well-being beyond materialistic concerns, and feeling an emotional connection to others who suffer (Miller et al., 2012).

Relative to the second dimension related to normative expectations, Heckert and Heckert (2002) expand on the notion that deviant behavior can under- or over-conform to prevailing social norms by considering the normative context of the institutional environment. Recent work draws upon these insights to build a model of the likely distribution of social approval loss following a crisis (Bundy & Pfarrer, 2015). Others rely on Heckert and Heckert (2002) to argue that both over- and under-conforming firm behaviors sometimes lead to “firm celebrity” because they violate the prevailing social norms, but not enough to become “outlaws” (Rindova et al., 2006). This normative distinction of over- and under-conformity is critical to our proposed typology, given our interest in governance deviance.
Consequently, we continue our focus on embedded agency within an institutional context by developing a new typology based on entrepreneurial motives and normative expectations. In so doing, we advance four distinct types of corporate governance deviance which we label: (1) Commercial Mavericks, (2) Social Rebels, (3) Commercial Rate-Busters, and (4) Social Angels. Due to the abstractness of the following argument, we provide anecdotal illustrations. Thus, we discuss the application of our typology through the governance practice of CEO compensation across two of the four distinct governance logics (i.e., stakeholder and relational) and include illustrative company examples in each case. Differences in compensation practices are highly embedded in national institutions of social power structures and income stratification (Greckhamer, 2016) which we have conceptualized as governance logic.

It is important to first explain how these two governance logics define the legitimate compensation practices within the zone of conformity before we turn our attention to the governance deviance types. We selected Brazil, with its relational governance logic, and Germany, with its stakeholder governance logic, for illustration purposes in order to demonstrate that governance deviance is always evaluated in light of a specific prevailing governance logic. Compared to U.S. and U.K. firms, Brazilian firms pay higher CEO compensation relative to other workers (Economist, 2011). This governance logic seeks to attract and retain top talent and to deter corruption, and is consistent with the socio-cultural history of Brazil (Menezes-Filho, Muendler, & Ramey, 2008). Therefore, under this scenario, an under-conforming compensation practice for a Brazilian firm is to pay relatively low salaries to CEOs relative to others; and an over-conforming practice is to pay exorbitantly high salaries, even by Brazilian standards.

Conversely, German firms are expected to adhere to moderate CEO compensation practices relative to other workers (Tosi & Greckhamer, 2004). Hence, a German compensation
practice *under-conforming* to the stakeholder-governance logic grants relatively high CEO salaries, while *over-conforming* practices result in substantially lower CEO salaries. Interestingly, identical CEO compensation practices receive different normative evaluations relative to the zone of conformity, depending on the dominant legitimate governance logic.

Next, we discuss each of the cells in Table 1 summarizing our proposed typology. All cells include firms with highly central entrepreneurial identities that have chosen to adopt practices outside the zone of conformity, and are therefore engaging in governance deviance.

Cell 1 of Table 1, which we label *Commercial Mavericks*, refers to under-conforming governance practices that are driven primarily by commercial entrepreneurial motivations within a firm. For example, Petrobras, a large state-owned Brazilian oil company, employs extremely entrepreneurial and commercially-motivated professionals as evidenced by its cutting-edge and competitive technological prowess in drilling oil in ultra-deepwater, pre-salt wells (Guardian, 2015). This organization’s entrepreneurial identity would fall into the darwinian type specified by Fauchart and Gruber (2011). Yet, the salaries of Petrobras’ politically-connected executives and CEO are relatively low, therefore under-conforming with the Brazilian governance norms.

Turning to an example within the stakeholder-oriented governance logic, the under-conforming CEO compensation practice by a firm with high entrepreneurial identity is also displayed by Deutsche Bank where the two co-CEOs were among the most highly compensated European-based bank CEOs, and certainly amongst all firms within Germany (Financial Times, 2015). Deutsche Bank’s general disposition towards a commercially-motivated entrepreneurship is evident in the statement from the opening paragraph of its most recent annual report: “It is in the nature of entrepreneurialism to sometimes act against conventional opinions” (Deutsche Bank, 2015: 11).
The Cell 2 deviant governance type, or what we call *Social Rebels*, is characterized by entrepreneurial firms primarily motivated by social goals, yet whose practices under-conform to the prevailing governance logic. In other words, they are “rebels with a cause” (Jones et al., 2012). For example, the Brazilian financial service firm Sitawi focuses on social welfare motives and pays comparatively low salaries to CEO Leonardo Letelier (Letelier, 2012). In contrast, SAP’s CEO, Bill McDermott, is the third most-highly paid CEO in Germany (Finanzen, 2015). However, SAP appears to fit the Rebel type due to its socially-motivated entrepreneurial motivation as reflected by its mission statement: “To help the world run better and improve people’s lives” (SAP, 2015: 1).

The third type of deviant governance practice, called *Commercial Rate-Busters* (cell 3), is characterized by over-conformity to the dominant governance logic while primarily seeking commercial goals. This type is illustrated by Brazilian firm, Vale, the world’s third largest mining company whose CEO receives extremely high compensation, even by Brazilian standards (Torres, 2012). Vale’s commercial motivation is evident in the statement “Our main goal is to maximize shareholder value” and its stock was the second most highly traded equity listing on the NYSE in 2014 (Vale, 2015:1).

In Germany, over-conforming governance deviance practices entail paying relatively low CEO salaries, while pursuing commercial interests above all else. One illustration is the German discount supermarket chain, Lidl, which prioritizes company market principles of customer satisfaction and value for money above all else (Lidl, 2015:1). Notably, Lidl’s CEO’s compensation is in the bottom quarter of the industry, and this compensation is lower than what would be expected given German norms (Businessweek, 2015). This is also an example of what Heckert and Heckert (2002) refer as “rate busting” type of deviance.
Our last governance deviance type, *Social Angels* (cell 4), occurs when the governance practice over-conforms with the dominant governance logic and is entrepreneurially motivated by underlying social aims. A good example of this deviance type in the context of relational governance logic is Natura Cosmeticos, a Brazilian firm which makes beauty, household, and personal care products and prioritizes human rights and environmental sustainability in all of its markets. Notably, CEO Roberto Oliveira de Lima receives a high to moderate salary of US$1.5 million relative to the average Sao Paolo, Brazil-based CEO who earns about US$620k (Economist, 2011). Natura Cosmeticos’s CEO salary over-conforms to the Brazilian compensation practices, yet it is driven by social welfare concerns.

Conversely, in Germany, over-conforming compensation practices occur when a firm with a “missionary” identity (Fauchart & Gruber, 2011) pays relatively low salaries. One example is Gesundkostwerk Deutschland, a German firm which produces and distributes vegetarian and dairy foods. The firm’s long-standing commitment to social well-being began with its unusual inception in 1899 during a reform movement in the industrial period to improve living standards by producing healthy nutrition. Gesundkostwerk’s over-conformance with compensation practices and social motivations are evident in CEO Michael Berghorn’s relative low salary (Money House, 2015).

In sum, these four types of governance deviance illustrate that the national governance context “sets the stage” to define the normative expectations, but the firm’s entrepreneurial motivations enables the firm to improvise in its performance. This typology breaks new theoretical ground by refining and extending the ILP and the entrepreneurship literatures, and it yields exciting new research opportunities for the corporate governance scholars.
DISCUSSION

With the rise of emerging markets and the interconnected financial flows in the global economy, the international corporate governance literature is at a crossroads. Djelic and Quack’s (2010) call to incorporate comparative perspectives with many countries is, as they admit, both conceptually and empirically hard to pursue. Some scholars argue for probing the limits of “universal” context-free theories in emerging economies to better understand these theories’ limits; others push for the development of “indigenous” theories that are independent of any extant theory (Jack, Zhu, Barney, Brannen, Prichard, Singh, & Whetten, 2012).

We believe that neither a universal nor an indigenous approach is likely to be productive. Instead, the development of context-sensitive middle range theories is useful to better understand how and why organizations operate within certain boundary conditions across national governance systems. In effect, middle range theorizing blends the virtues of the universal with the indigenous approach, and permits empirical testing which leads to accumulation of new insights over time (Merton, 1968: 39). Thus, we argue that the field of comparative corporate governance needs more middle-range theorizing that explores delimited aspects of governance phenomena and permits empirical testing.

Future Research

For any new theoretical development, the first order of business is to empirically test the proposed model and ascertain its utility and falsifiability. Clearly, there is a need to extensively test our fundamental premise that the centrality of the firm’s entrepreneurial identity within the context of a dominant governance logic is the primary driver for the adoption of deviant corporate governance practices. We illustrate the validity of our framework throughout this study by sharing numerous examples of the adoption of deviant CEO compensation practices.
However, our framework can be productively applied to other pressing governance issues such as explanations for diverse compositions of boards, anomalous corporate political activity, unusual firm-level responses to climate change initiatives, and cybersecurity experiments. Of course, for some governance practices such as moral leadership or community engagement, it might be more difficult to pinpoint what practices fall within the zone of conformity. Future research should also examine the possibility that a deviant practice can eventually turn into a legitimate one, setting new governance standards. Indeed, it is likely that this bottom-up deviation process is the source of all institutional entrepreneurship (Greenwood, et al., 2011).

Furthermore, theoretical understanding can also progress by exploring the primary boundary condition specified in this study. Recall that the boundary condition that we imposed on our model is the simplifying assumption that there is one dominant governance logic operating within each national economy. When this boundary condition is relaxed, we are faced with the potential existence of multiple institutional logics (Besharov & Smith, 2014; Greenwood et al., 2011). This theoretical relaxation introduces three complexities to our proposed model, and further investigation could be very illuminating.

The first complexity acknowledges the possibility of the co-existence of roughly equivalent, yet competing governance logics external to the firm within the same national economy (Bundy, Shropshire, & Buchholtz, 2013; Pache & Santos, 2010). For example, in the United States, with its shareholder-oriented governance logic, Lee and Lousnsbury (2015) show that environmental practices in some communities are perceived as legitimate, but the exact same practices are considered illegitimate in other communities. Moreover, U.S. firms buffered from takeover-disciplining pressures might be encouraged, within the shareholder-oriented governance logic, to shift to a stakeholder governance logic in the absence of such external
pressures (Kacperczyk, 2009). Different owners might also adhere to different logics as indicated by Connelly, Tihanyi, Certo, and Hitt’s (2010) comparison of governance practices between “dedicated” versus “transient” institutional investors. These studies show that the co-existence of functionally equivalent, but distinct governance logics can influence governance practices, and it would be a natural next step to examine the impact of such a condition after testing our middle range theory.

The second complexity associated with the existence of multiple logics is the potential emergence of an alternative governance logic that may challenge the dominance of a prevailing governance logic. Even though logics are fairly “sticky,” they are not static (Aguilera, Filatotchev, Gospel, & Jackson, 2008). Notably, Colyvas and Maroulis (2015) argue that institutions emerge from a bottom-up experimental process whereby innovative early adopters meet with success and others imitate their approach. It may be that firm-level governance deviance practices can lead to a governance logic that competes with or even replaces the existing governance logic if a critical mass of firms emulate one firm’s deviant governance practices. For example, Webb et al. (2009) note that non-conforming entrepreneurial practices in the informal economy sometimes become institutionalized within the formal economy, even when those same practices were initially viewed as semi-legal or even illegal. As such, studying how deviant governance practices lead to institutional entrepreneurship could be a fruitful area of future research.

A third complexity posed by the relaxation of our boundary condition points to the possibility that firms may become aware of different corporate governance practices through their exposure to governance logics outside the realm of their domestic institutional environment. For example, Djelic and Sahlin-Andersson (2006: 9) argue that “[T]ransnational regulation is a
mode of governance in the sense that it structures, guides, and controls human and social activities and interactions beyond, across, and within national territories.” In our interconnected age, all firms have potential awareness of, and accessibility to, governance practices outside their national domain, which can challenge the prevailing national governance logic. This is particularly true if a firm possesses a highly centralized entrepreneurial identity.

Thus, even though firms experience pressures to conform to the national governance logic, they might have to modify some of their governance practices when they navigate across multiple governance logics. For example, domestic firms might attract foreign owners or private equity who demand different governance practices, choose to list on a foreign stock market with more stringent governance requirements, seek to comply with governance hyper-norms defined by international governance watchdogs, or decide to remove themselves from the pressures of their current governance logic by incorporating in another country with different governance requirements. Notably, the recognition of different governance logics might trump the current prevailing national governance logic and may trigger governance deviance if the firm possesses a sufficiently central entrepreneurial identity. Future research could develop this under-theorized area, for example, by exploring the process of transnational pressures on firms, including the legitimacy bestowed by the general public (Haack, Pfarrer, & Scherer, 2014) or in the case of corporate governance, the transnational pressures to conform to a single, international accounting standard (Judge, Li, & Pinsker, 2010).

While previous research repeatedly shows that home country institutions often maintain a firm grip on multinational firm behavior, these global firms could be another fruitful context to test and expand our theory of governance deviance. Multinational firms can easily engage in governance arbitrage—that is, they can pick and choose the governance logic that best suits the
enterprise identity at a given time. One of the challenges confronting these geographically-
dispersed firms, as described by Kostova, Roth, and Dacin (2008), is the common experience of
dealing with conflicting governance logics across the different countries in which the
multinationals operate. Recent research reveals that geographic dispersion can be both a
challenge and an opportunity. For example, Geng, Yoshikawa, and Colpan (2016) empirically
show that some firms in Japan with fairly centralized entrepreneurial orientation seek to adhere
to a shareholder-oriented logic by adopting stock option pay compensation agreements, despite
deviance from the prevailing stakeholder-oriented logic. Future research could help us to better
understand how multinational firms pursue distinctive governance practices and how
transnational pressures shape these decisions. However, we first need to explore the interplay
between the firm’s entrepreneurial identity and its prevailing governance logic before tackling
these complexities and refinements.

Implications for Theory

Implications for comparative corporate governance. The corporate governance
literature has begun to explore the remarkably strong influence of national institutions on
corporate governance practices and outcomes (Aguilera & Jackson, 2010), particularly in
developed economies. However, this literature has not yet systematically and comprehensively
identified the salient governance logics operating within the global economy. This study
provides a roadmap for understanding corporate governance practices operating across the global
economy by identifying four diverse types of governance logics. In addition, comparative
corporate governance research often fails to explain why corporate governance practices vary
within a national governance environment (Garcia-Castro, Aguilera, & Ariño, 2013), and this
study advances a theoretical framework for explaining why this might happen.
Overall, our multi-level focus merging macro and micro explanations should enable future researchers to consider not only the national institutional context, but also firm-level antecedents to describe and explain governance behaviors and outcomes. In addition, the notion of governance deviance that over- or under-conforms with prevailing governance standards poses new and interesting possibilities for future research related to how different forms of deviance affect other firm outcomes. Finally, the central goal of all economies is to generate wealth equitably (Judge, Fainshmidt & Brown, 2014). Our introduction of moral capital within the governance capacity construct and entrepreneurial motives grounded in social welfare concerns opens up new areas of study for understanding how firms address social equity concerns which are internally motivated.

**Implications for the institutional logic perspective.** Recent developments in institutional theory offer powerful new insights into how organizations exercise agency within an embedded context (Greenwood et al., 2011). In particular, the institutional logics perspective argues that the micro-foundations of organizational agency stem from firm identity categorization (Thornton et al., 2012: 92). Unfortunately, this rather broad “meta-theory” fails to identify what type of organizational identities matter; nor does it tell us exactly how the construct of identity interacts with external institutional pressures to yield varying organizational practices and outcomes across countries. In this study, we highlight the central role of entrepreneurial identity as the primary source of organizational agency and intentionality with respect to corporate governance practices which do not conform to the prevailing governance logic. By combining insights from the institutional logics perspective with the entrepreneurship literature, we begin to explore the micro-foundations of embedded agency for corporate governance practices.
Previous institutional logics literature highlights the role of attention by the organization’s dominant coalition, but it is fairly vague with respect to the specific causal mechanisms of organizational agency. For example, Joseph et al. (2014) claim that path-dependent rules guide board decision making, but they do not specify how this relates to identity claims. Also, Terlaak (2007) argues that the dominant coalition makes cost-benefit calculations as to when the organization should resist prevailing institutional logics, but does not elaborate as to how these calculations are made. While these insights are clearly important, we believe that the specific construct that triggers the deviation response is missing from this perspective. In sum, we assert that the centrality of a firm’s entrepreneurial identity is the missing link in explaining when and how organization’s deviate from isomorphic pressures.

**Implications for the entrepreneurship literature.** Entrepreneurship at its core involves the discovery and pursuit of new opportunities (Shane & Venkataraman, 2000). However, the entrepreneur as well as the entrepreneurially-oriented firm is embedded within an institutional context (Dencker & Gruber, 2015; Terjesen, Hessels, & Li, 2016), and no cross-national entrepreneurship literature that we are aware of has yet provided a coherent framework for specifying why and when an organization will resist institutional pressures and deviate from established norms in terms of governance practices. Entrepreneurs often choose to not conform to the prevailing practices, and we assert that it is the centrality of the firm’s entrepreneurial identity that enables firms to adopt deviant governance practices. Consequently, understanding how an entrepreneurial identity is created and maintained within an organizational and institutional context is essential for moving this literature forward.

Related to the notion of entrepreneurial identity, our typology also considers the entrepreneurial motives behind the adoption of deviant governance practices. Building on Wry
and York’s (press), we distinguish between commercial and social motives as manifestations of entrepreneurial identity, which in turn per our model will influence governance deviance. Most entrepreneurship research is focused on how to manage and govern the firm to help ensure that it is more innovative in the marketplace (Drucker, 1985). In this study, we flip this logic and explore how a firm’s entrepreneurial tendencies might influence its governance choices.

**Implications for Practice**

Our research also contains practical implications for strategic leaders seeking to navigate the conflicting pressures that they experience in their effort to achieve a distinctive competency. We can easily imagine that a firm with a relatively pronounced entrepreneurial identity early in its life cycle might experience considerable conflict later on as other identities vie for supremacy within the firm. Indeed, it has long been recognized that many firms lose their entrepreneurial “spirit” or identity as it evolves over time (Haveman, Habinet, & Goodman, 2012), and our model offers yet another reason to resist this trend.

Of course, all governance practices are ultimately chosen by the firm’s board of directors. While it remains to be seen how deviant governance practices influence the firm’s prospects for long-term survival, our study suggests that directors should not dogmatically adopt only governance practices that are prescribed by the dominant governance logic. This is particularly true when there is an opportunity to enhance the firm’s reputation by over-conforming with traditional practices (Fombrun & Shanley, 1990), or there is an opportunity to enhance the firm’s financial performance by under-conforming with traditional practices that facilitate the pursuit of commercial interests (Garg, 2013; Geng et al., 2016).

**Conclusions**

Overall, we seek to advance our understanding of when and how firms deviate from their
prevailing national governance logic with respect to corporate governance practices. In so doing, we introduce the concept of governance deviance and point out that the same governance practice can be evaluated as deviant or conforming depending on the prevailing governance logic surrounding the organization. We show that a firm’s entrepreneurial identity is the primary driver of corporate governance discretion, and that the range of socio-cognitive governance discretion will make deviance more or less likely. Moreover, we argue that the extent of national regulatory enforcement and the firm’s overall governance capacity are important contingencies influencing the firm’s ultimate corporate governance deviance. As such, we advance institutional theory research as well as contribute to a more holistic understanding of the comparative corporate governance literature. Our conceptual model addresses the long-standing tension between organizational agency and institutional isomorphism by highlighting why some firms conform and others deviate within the same institutional context, and it opens up many new fascinating lines of inquiry for future research.
FIGURE 1
Mid-Range Model of Comparative Corporate Governance Deviance

National Institutional Constraints/Enablers

National Logic ➔ Governance Logic
Liberal (Market) ➞ Shareholder
Social Rights (Society) ➞ Stakeholders
Developmental (Society & State) ➞ Relational
Socialist (State) ➞ Statist

Corporate Governance Discretion ➔ Corporate Governance Deviance

Entrepreneurial Identity Centrality

Governance Practice Awareness

Governance Practice Accessibility

Governance Practice Activation

 Extent of Regulatory Enforcement

P1

P2

P3

P4
### TABLE 1
Typology of Corporate Governance Deviance

<table>
<thead>
<tr>
<th>Normative Perceptions within Corporate Governance Logic</th>
<th>Under-conformity</th>
<th>Over-conformity</th>
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<tr>
<td><strong>1. Commercial Mavericks</strong></td>
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<tr>
<td>Brazil: Petrobras</td>
<td></td>
<td>Brazil: Vale</td>
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<td>(low CEO pay gap)</td>
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<td>Germany: Deutsche Bank</td>
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<td>Germany: Lidl</td>
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<td>(high CEO pay gap)</td>
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<td><strong>2. Social Rebels</strong></td>
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<td>Brazil: Sitawi</td>
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<td>Brazil: Natura Cosmetricos</td>
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<td>(low CEO pay gap)</td>
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<td>Germany: SAP</td>
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<td>Germany: Gesundkostwerk</td>
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<td>(high CEO pay gap)</td>
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<td><strong>3. Commercial Rate-Busters</strong></td>
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<td>Brazil: Vale</td>
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<td><strong>4. Social Angels</strong></td>
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<td>Brazil: Natura Cosmeticos</td>
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<td>Germany: Gesundkostwerk</td>
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<td>(low CEO pay gap)</td>
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Notes:

1. Typology only applies to firms with highly centralized entrepreneurial identities
2. Two prevailing governance logics used to illustrate typology:
   a. Brazilian Dominant Governance Logic: High CEO Pay Gap normatively expected
   b. German Dominant Governance Logic: Moderate CEO Pay Gap normatively expected
REFERENCES


