

Some Psychology of Corporate Governance: Culture as Situational Logic

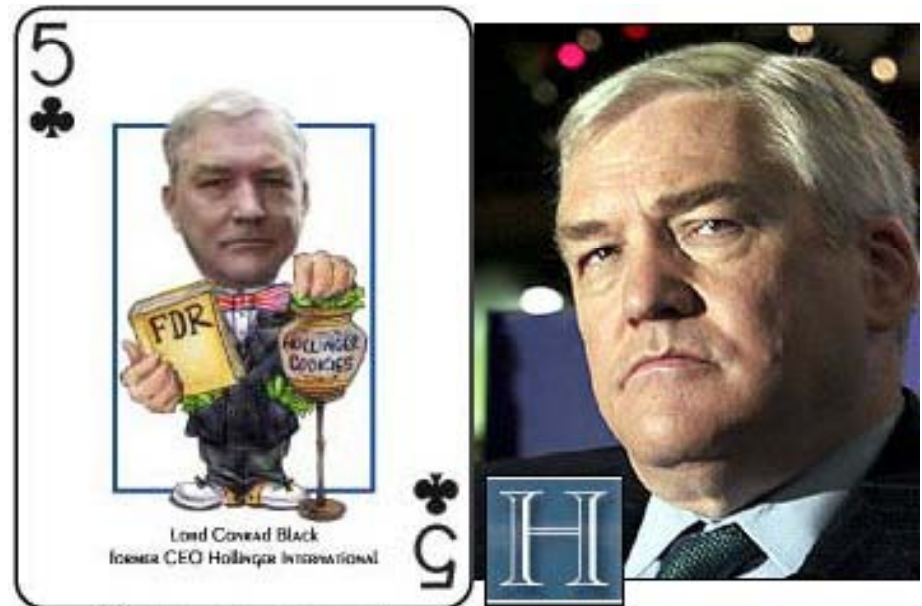
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Culture, Psychology, Economics and Law
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A personal note to begin...

- high-school friend of one year, Conrad Black, newspaper tycoon, author of FDR biography and former CEO of Hollinger International, currently being sued by Hollinger for acts of "corporate kleptocracy"
- Allegedly, "From 1997 to 2003, the report said, Black, Radler and other controlling shareholders steered 95.2 percent of Hollinger's adjusted net income into their personal accounts. Black's Hollinger Inc. has 68 percent voting control of Hollinger International and 18.2 percent equity interest." (Johnson, 2004)
- How and why - how was Conrad charged, why was it Conrad who was charged, why has this legal action happened in the USA?



A psychologist approaches corporate governance culturally:

- The explicandum: "...corporate governance deals with ensuring that investors in firms are paid back their investment and perhaps some expected return."
- issue #1: "the 'agency problem' - the notion that people ("agents") who are assigned with promoting the interests of others are likely to behave opportunistically and benefit themselves at the expense of their senders or beneficiaries (the "principals")."
- individual aggrandizement - the power motive much studied by psychologists from Freud and Murray to McClelland and Schwartz?
- The Conrad Black problem?



Harnessing the power motive



- Power as a universal social reality to be negotiated, and everyone learns to negotiate power imbalances in order to achieve his/her goals
- **and** not be expelled from a supportive game, given that we require a game to survive as socially dependent creatures (social influence theory - Tedeschi and Felson, 1994)
- Power issue especially acute in emerging corporate domains because **"in numerous situations it would be impossible or prohibitively costly for the principal effectively to monitor the agent's actions."**

Culture and beliefs about power

- cultural question: why should the principal wish to monitor the agent?
- what beliefs about “power-in-the-world” underlie this concern, and where might they originate?
- why was “morality” a distinctive third dimension of Chinese leadership to emerge in the Ohio State-type studies done by Xu?
- For Americans [and many others!], is control vested not in the moral discipline of the leader but in the monitoring process?
- The loyal opposition and the debating forum as some procedural controls generating trust [Fukuyama, 1995]

What is the "firm"?



- issue #2: "...firms can exist in social reality separately from the people who work on their behalf", i.e., have a "separate legal personality".
- "can" is culturally crucial; suppose the people who work for the "firm" are the firm?
- the firm perceived as a social entity established to serve the interests of those lucky or skilful enough to be a recognized member of the entity, it's mere existence legitimating its use by its members to further it-their interests?
- what was the Chinese conception of the danwei, the state-owned enterprise, etc., underpinned by beliefs about "commune-ism", esp. as enacted at the local level? How does that logic currently apply to organizations in China
- "Blurrier and blurrier", with apologies to Alice

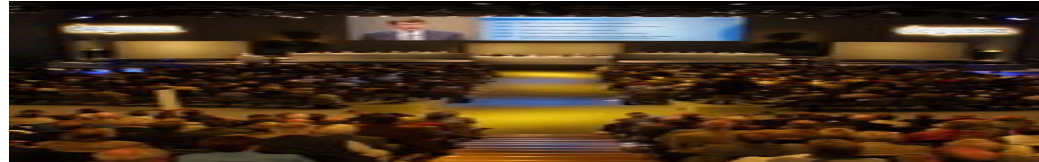


"Cui bono"?



- "Coupled together, these two points create ample ground for people working in corporations - especially those who control large companies - to benefit themselves at the expense of **investors**"
- Investors - a category of individuals whose financial inputs get the firm started and who have an interest in receiving a return on his/her investment
- Is the concept of "**investors**" culturally based, too?
- Presumes a. the individual has financial resources to invest, b. if so, would invest in a legal entity, c. and that he/she has a right to expect a return to him/her as an individual beyond meeting the strong norm of contributing to his/her local community
- Are some national systems of culture likely to experience greater difficulties meeting these necessary conditions for "**investorship**"?

Beliefs governing corporate governance: Creating and sustaining a playable game



- #1: frameworks for governance provide mechanisms for monitoring corporate profits and restraining officers' self-interest
- #2: investors perception of a safe playing field necessary for them to join and continue playing the game
- specifics of belief: corporate officers are believed to act within the laws regulating their job performance, so that they don't "take" more than their contracted due and don't "shirk" their responsibilities to monitor malfeasance of others in the corporation;
- mechanisms are in place and operating to reveal true picture of where profits or losses are going
- enforcement of malfeasance will happen
- punishment is an effective deterrent to "corporate kleptocracy"

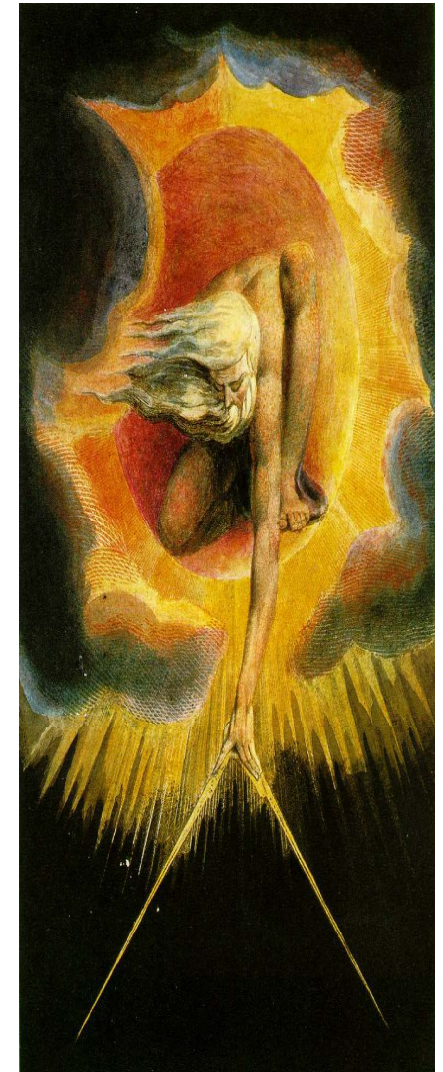
Premise: Beliefs guide investor willingness to invest money

- “Say first, of God above or man below,
What can we reason but from what we know?” Pope, *Essay on Man*.
- beliefs in general are grounded in observations about how things have worked and worked out in the past
- investor “climate” determined by these beliefs combined with assessments about market “direction”
- Certain combinations of political-legal-enforcement factors will favor investment in a corporation

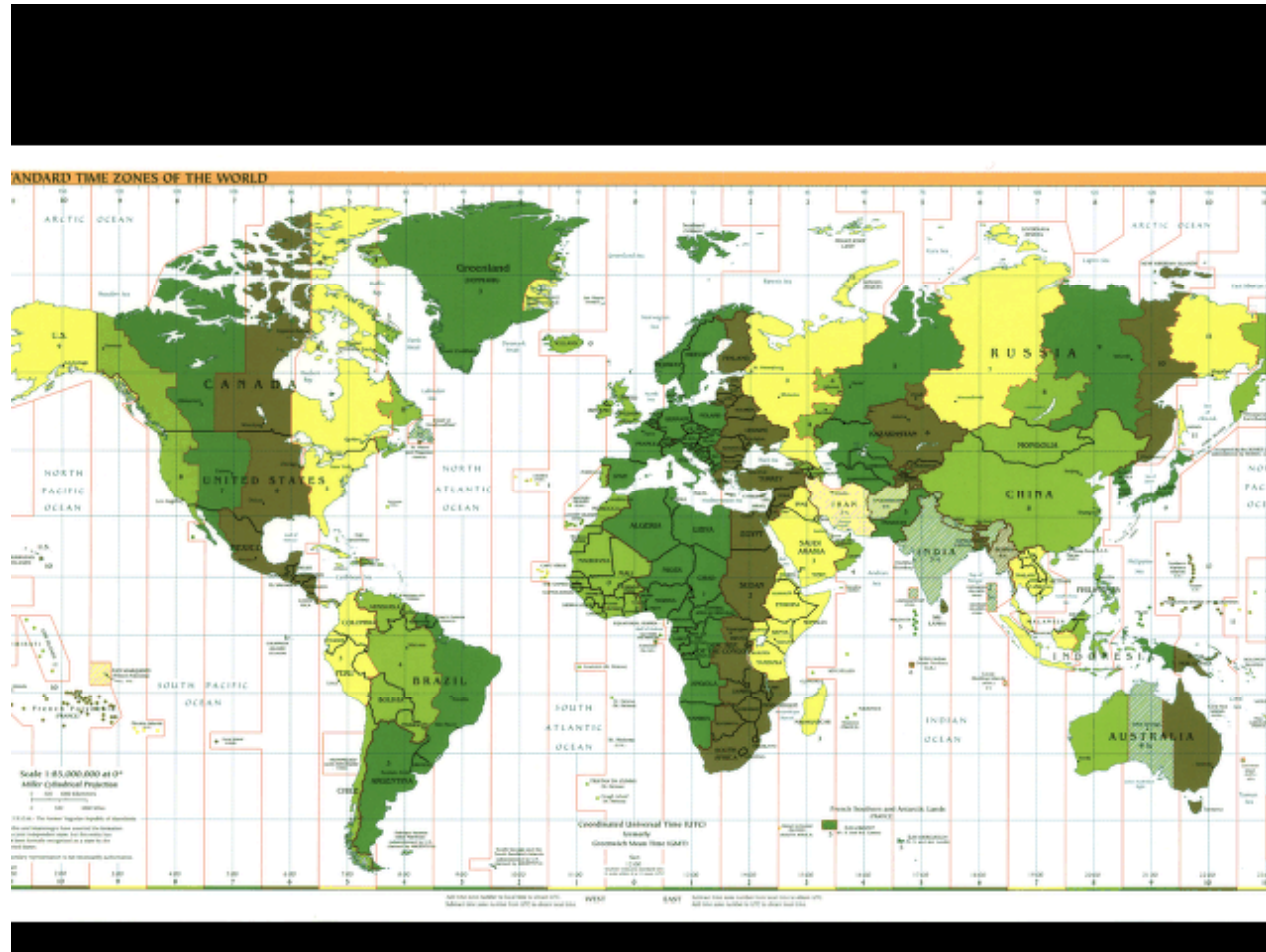


Premises about social science research on corporate governance

- social indicators research, e.g., Inglehart's World "Values" Survey, suggest that beliefs held by typical citizens of a political unit about its investment climate are **measurable**
- these "citizen" beliefs vary as a function of **measurable** societal indicators
- some societal indicators already developed, e.g., at a broader level, Humana's (1992) human rights index;
- others at a more focused level, e.g., "firm-level data on international corporate governance and transparency ratings from Credit Lyonnais Securities Asia (CLSA)" (see e.g., Doidge et al., 2004); or "the value of corporate control" (Nenova, 2001)



Premise: These specific beliefs relate to more general beliefs known as "social axioms", already measured around the world



Social Cynicism – “it’s a perilous world”

Item	Factor Loading
1. Powerful people tend to exploit others.	.60
2. Power and status make people arrogant.	.59
3. Kind-hearted people usually suffer losses.	.57
4. Kind-hearted people are easily bullied.	.53
5. People will stop working hard after they secure a comfortable life.	.45
6. Old people are usually stubborn and biased.	.45
7. The various social institutions in society are biased towards the rich.	.44
8. It is rare to see a happy ending in real life.	.44
9. To care about societal affairs only brings trouble for yourself.	.42
10. People deeply in love are usually blind.	.39
11. Young people are impulsive and unreliable.	.38

- College student samples from 40 countries

Social Complexity – “To every simple question, there is a simple answer, and... it is wrong!” H.L.Menken

Item	Factor Loading
1. People may have opposite behaviors on different occasions.	.60
2. Human behavior changes with the social context.	.54
3. One’s behaviors may be contrary to his or her true feelings.	.54
4. One has to deal with matters according to the specific circumstances.	.48
5. Current losses are not necessarily bad for one’s long-term future.	.40
6. There is only one way to solve a problem.*	.39

* Reverse item

- College student samples from 40 countries

Reward for Application – “When the going gets tough, the tough get going”

Item	Factor Loading
1. One will succeed if he/she really tries.	.63
2. Hard working people will achieve more in the end.	.59
3. Adversity can be overcome by effort.	.56
4. Every problem has a solution.	.50
5. Knowledge is necessary for success.	.49
6. One who does not know how to plan his or her future will eventually fail.	.45
7. Competition brings about progress.	.42
8. Failure is the beginning of success.	.40
9. Caution helps avoid mistakes.	.36

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Fate Control – pre-determination and its determination

Item	Factor Loading
1. Individual characteristics, such as appearance and birthday, affect one's fate.	.60
2. There are many ways for people to predict what will happen in the future.	.60
3. There are certain ways to help us improve our luck and avoid unlucky things.	.52
4. Most disasters can be predicted.	.51
5. Fate determines one's successes and failures.	.48
6. Good luck follows if one survives a disaster.	.48

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Religiosity – “the ties that [truly] bind”

Item	Factor Loading
1. Belief in a religion helps one understand the meaning of life.	.75
2. Religious faith contributes to good mental health.	.72
3. There is a supreme being controlling the universe.	.62
4. Belief in a religion makes people good citizens.	.61
5. Religion makes people escape from reality.*	.59
6. Religious beliefs lead to unscientific thinking.*	.54
7. Religious people are more likely to maintain moral standards.	.51

* Reverse item

- College student samples from 40 countries

Citizen Means of 40 Countries

Citizen	CYN
Georgian	3.37
German	3.32
Greek	3.32
Taiwanese	3.30
Pakistani	3.29
Peruvian	3.29
Romanian	3.23
Thai	3.22
Estonian	3.16
Japanese	3.16
Korean	3.16
Hong Kong Chinese	3.13
Russian	3.09
French	3.05
Latvian	3.05
Lebanese	3.05
Indian	3.04
Chinese	3.03
Nigerian	2.98
Belgian	2.97
Hungarian	2.96
Turk	2.94
Singaporean	2.93
Iranian	2.89
Spaniard	2.89
Malaysian	2.88
Portuguese	2.87
Filipino	2.84
Brazilian	2.81
Czech	2.77
New Zealander	2.77
Finn	2.76
Israeli	2.76
British	2.75
Italian	2.74
Indonesian	2.72
Norwegian	2.66
American (Caucasian)	2.65
Canadian	2.63
Dutch	2.62

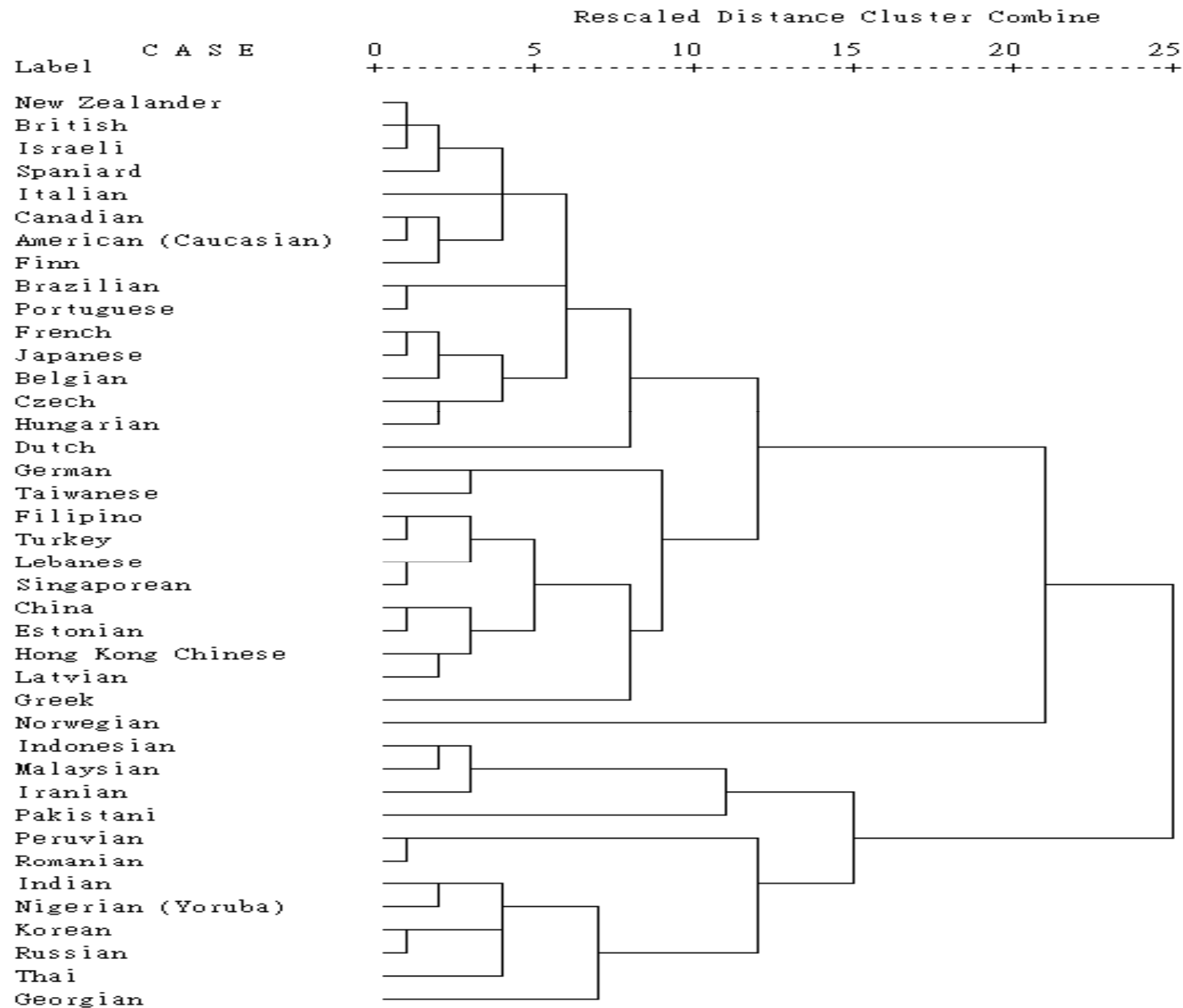
Citizen	PLEX
Norwegian	4.37
German	4.33
Taiwanese	4.22
Canadian	4.20
Dutch	4.18
Israeli	4.16
New Zealander	4.14
Singaporean	4.14
Spaniard	4.14
Turk	4.14
Hungarian	4.13
British	4.11
Estonian	4.11
Lebanese	4.11
American (Caucasian)	4.10
Czech	4.10
Filipino	4.09
Chinese	4.08
Finn	4.08
French	4.08
Hong Kong Chinese	4.08
Japanese	4.04
Belgian	4.03
Greek	4.02
Latvian	4.02
Italian	4.01
Brazilian	3.98
Korean	3.98
Indonesian	3.96
Malaysian	3.93
Indian	3.92
Portuguese	3.90
Nigerian	3.89
Georgian	3.88
Russian	3.86
Thai	3.80
Iranian	3.79
Pakistani	3.77
Romanian	3.72
Peruvian	3.67

Citizen	RA
Malaysian	4.29
Indian	4.19
Pakistani	4.15
Indonesian	4.14
Iranian	4.12
Nigerian	4.04
Filipino	4.03
Thai	3.98
Turk	3.97
Peruvian	3.88
Taiwanese	3.87
Korean	3.85
Russian	3.82
Estonian	3.81
Singaporean	3.78
Lebanese	3.77
German	3.76
Canadian	3.74
Chinese	3.74
Romanian	3.74
Greek	3.73
Hong Kong Chinese	3.70
Georgian	3.69
American (Caucasian)	3.66
Portuguese	3.61
Israeli	3.60
Finn	3.59
New Zealander	3.59
Latvian	3.58
French	3.56
Brazilian	3.54
Norwegian	3.53
Japanese	3.50
Spaniard	3.48
British	3.46
Hungarian	3.40
Belgian	3.36
Czech	3.29
Italian	3.28
Dutch	3.18

Citizen	REL
Pakistani	4.40
Malaysian	4.30
Indonesian	4.22
Iranian	4.15
Nigerian	3.67
Georgian	3.65
Filipino	3.52
Turk	3.48
Hong Kong Chinese	3.44
Thai	3.43
Brazilian	3.39
Indian	3.37
Romanian	3.29
Singaporean	3.24
Taiwanese	3.22
Peruvian	3.21
American (Caucasian)	3.18
Greek	3.13
Russian	3.12
Canadian	3.10
Czech	3.10
Korean	3.10
Latvian	3.10
Lebanese	3.10
Portuguese	3.09
Finn	3.07
Hungarian	2.99
German	2.93
Chinese	2.92
New Zealander	2.83
British	2.81
Dutch	2.73
Italian	2.72
Estonian	2.70
Japanese	2.65
French	2.60
Israeli	2.60
Belgian	2.58
Norwegian	2.55
Spaniard	2.40

Citizen	FATE
Pakistani	3.15
Thai	3.14
Nigerian	3.08
Taiwanese	3.01
Georgian	3.00
Korean	2.98
Indian	2.97
Russian	2.97
Malaysian	2.96
Indonesian	2.91
Chinese	2.90
Iranian	2.85
Estonian	2.81
German	2.77
Latvian	2.77
Hong Kong Chinese	2.69
Turk	2.68
Hungarian	2.67
Czech	2.62
French	2.62
Filipino	2.60
Japanese	2.59
Belgian	2.58
Dutch	2.56
Romanian	2.55
Finn	2.54
Israeli	2.53
Singaporean	2.52
Brazilian	2.49
Peruvian	2.48
Lebanese	2.47
American (Caucasian)	2.46
Canadian	2.43
Portuguese	2.43
Greek	2.37
British	2.35
New Zealander	2.34
Italian	2.29
Spaniard	2.27
Norwegian	2.01

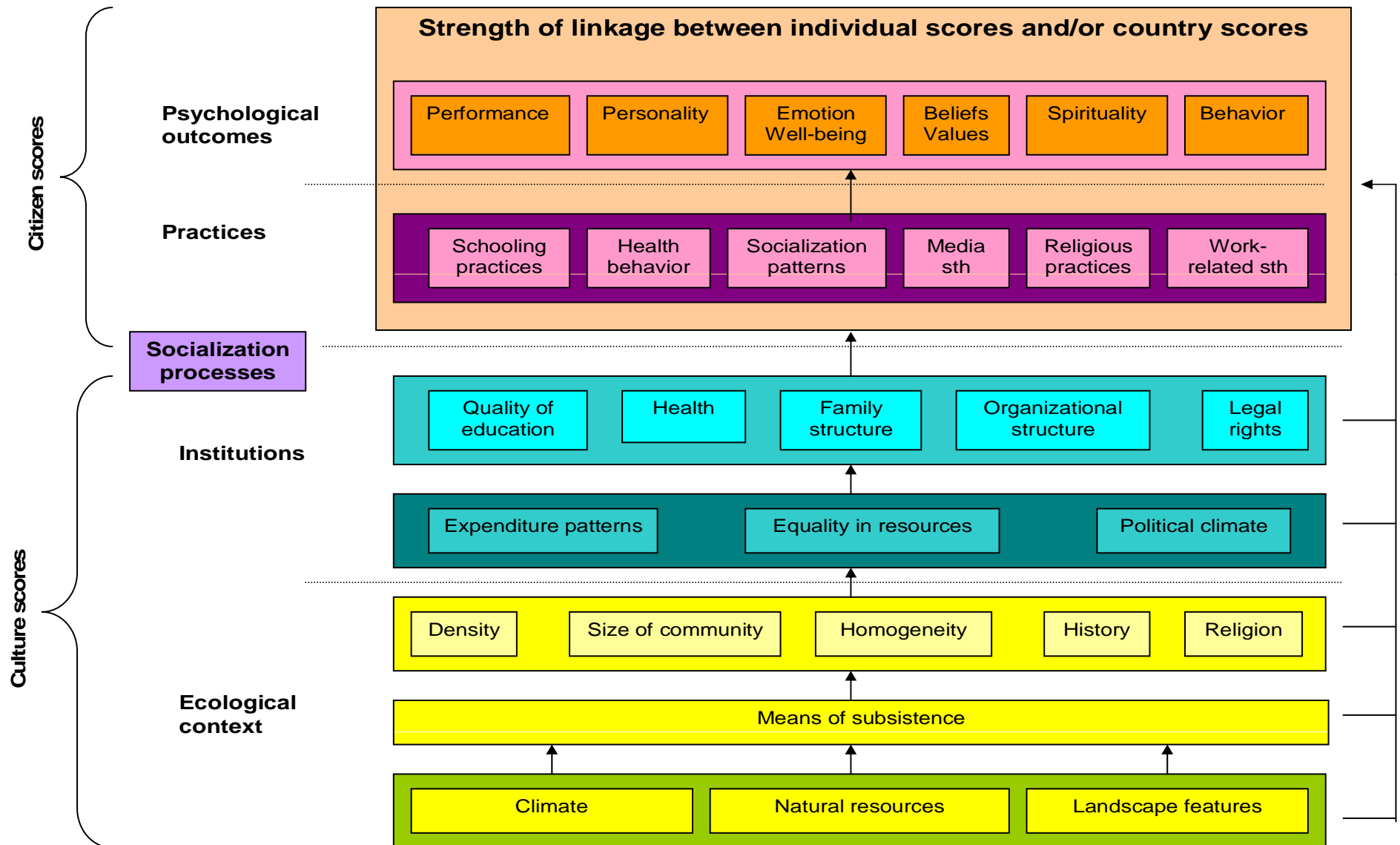
Dendrogram using Average Linkage (Between Groups)



Nation-level correlates of social cynicism (Bond et al., *JCCP*, 2004)

- correlates of social cynicism, controlling for wealth ($r = -.40$):
- growth competitiveness index ($r = .36$)
- voter turnout last election ($r = -.36$)
- life satisfaction ($r = -.65$)
- pace of life ($r = .79$)
- endorsement of charismatic leadership ($r = -.70$), team-oriented leadership ($r = -.53$)
- conscientiousness ($r = -.47$)
- A “nomological network” for cultural enactment?

The nesting of psychological factors, including beliefs, within a social scientific framework



Premises and hypotheses about general beliefs and corporate governance

- **empirical finding**: these general beliefs reflect features of the social reality characterizing a given nation
- **premise**: they constrain the development of institutions and policies regulating corporate governance within a society
- **hypothesis**: the level of these beliefs, especially social cynicism, will predict the impact on investment by investors (not necessarily by governments) from the introduction of, or changes in, policies of corporate governance
- **hypothesis**: without trust in the monitoring and enforcement of any policies for governing the corporation, citizens will not freely invest their personal resources

For further scholarship:



- Bond, M. H., Leung, K., Au, A., Tong, K. K., & Chemonges-Nielson, Z. (2004). Combining social axioms with values in predicting social behaviors. *European Journal of Personality, 18*, 1-15.
- Leung, K., & Bond, M. H. (2004). Social axioms: A model for social beliefs in multi-cultural perspective. *Advances in Experimental Social Psychology, Vol. 36*, pp. 119-197.
- Smith, P. B., Bond, M. H., & Kagitcibasi, C. (2006). *Understanding social psychology across cultures*. London: Sage.