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Corporate Governance Between Shareholder and Stakeholder Orientation: Lessons From Germany

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Abstract

It is highly debated whether corporations should primarily follow a shareholder or a stakeholder principle. This article addresses the debate with a closer look at Germany's current conceptualization of corporate governance. Despite the introduction of shareholder-oriented practices such as moderate amounts of stock-option pay and more transparent accounting standards, the German corporate governance system is considered to be a prototype of stakeholder orientation. Critics of this system claim that strong obligations to stakeholder interests are a drawback for German firms when competing internationally. However, if applied thoughtfully, an institutionally anchored stakeholder management can also have a number of advantages. We point to selected advantages of a stakeholder-oriented system, including the active integration of stakeholder knowledge, increased commitment for strategic decisions, and a longer term view on performance. Acknowledging potential problems arising from a stakeholder orientation as well as its unique benefits, we call for a "modern" stakeholder value system.

Keywords

stakeholder theory, stakeholder management, shareholder value, corporate governance, Germany

Over the last decades, the optimal governance of corporations and the inherent benefits and downsides of different corporate governance systems around the world have received substantial attention (Aguilera & Jackson, 2010; Cappelli, Singh, Singh, & Useem, 2010; Khanna, Kogan, & Palepu, 2006). One of the most recurring elements of interest is whether governance systems converge to a shareholder value model and whether shareholder value models are superior over other, more stakeholder-oriented conceptions of corporate governance (Allen, Carletti, & Marquez, 2015; Shleifer & Vishny, 1997). However, although empirical evidence and well-developed theoretical models for both, shareholder- and stakeholder-oriented views exist (Donaldson & Preston, 1995; Jensen, 2002; Laplume, Sonpar, & Litz, 2008), the debate about the superiority of either model is ongoing. Conclusive answers in terms of comparative effectiveness and efficiency as well as the influence either model has on firm outcomes such as performance is, therefore, still lacking.

In practice, shareholder models have dominated for many years as a point of reference for adapting governance systems geared toward higher competitiveness. This consensus on a shareholder-oriented model is not only widespread in the Anglo-Saxon countries, where it originated, but has also gained growing worldwide influence due to the success of contemporary firms operating under this system. Furthermore, the global spread of the academic disciplines of economics and finance as well as the diffusion of share ownership in many developed countries have contributed to the dominance of this model (Hansmann & Kraakman, 2000). However, a number of recent corporate scandals in the United States, the collapse of Lehman Brothers, and the following financial crisis have raised doubts about the superiority of the Anglo-American shareholder-centered model of corporate governance. These events revealed inherent vulnerabilities of a strictly shareholder-oriented governance conceptualization and have renewed interest in alternative models.

Attention to this debate is further enhanced by constitutive differences in the dominating theoretical models underlying both paradigms. Shareholder value conceptions, which proclaim profit maximization for shareholders as the only objective of firms (Jensen, 2002), draw mainly on agency theory (Jensen & Meckling, 1976), assuming that corporate constituencies seek to maximize their respective value at the expense of others if effective control mechanisms do not prevent self-interested behavior. In contrast, stakeholder approaches rely more on ethical views and resource-based approaches (Freeman, 1984; Freeman, Wicks, & Parmar, 2004). Especially

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instrumental stakeholder theory (Donaldson & Preston, 1995; Jones, 1995) and a body of related empirical work (e.g., Kacperczyk, 2009; Ogden & Watson, 1999) have established an alternative theoretical framework to analyze stakeholder relations. Focusing on the positive impacts of stakeholder management on organizational outcomes such as innovations or financial performance (Harrison & Wicks, 2013; Hillman & Keim, 2001; Verbeke & Tung, 2013), this stream of research has revealed new insights on the benefits of stakeholder orientation. Constructive stakeholder relations are perceived as valuable because they provide access to or represent important resources (Harrison, Bosse, & Phillips, 2010). Thus, in light of a global convergence toward the Anglo-American model of shareholder orientation (Yoshikawa & Rasheed, 2009), the question arises, if and via what mechanisms the cooperative approach to stakeholder relations and subsequent stakeholder management in stakeholder-oriented corporate governance systems also hold advantages for firms.

We seek to address this research gap with a closer look at Germany's corporate governance. Our aim is to show that in its current mixture of incorporated shareholder value practices and an institutionalized stakeholder-oriented rationale, Germany's corporate governance can be considered as a form of advanced and modern stakeholder value approach. We believe Germany to be a particularly interesting setting to examine questions concerning the effects of stakeholder orientation and management for several reasons. First, Germany has often been criticized for its stakeholder-centered conception of corporate governance. Portrayed as the sick man of the euro, the German model was predicted to fail ("The Sick Man of the Euro," 1999). Due to criticism raised on the traditional stakeholder model, several shareholder-oriented practices were introduced during the 1990s—sometimes against initial resistance of different institutional forces (Sanders & Tuschke, 2007). Nowadays, (shareholder) value-oriented performance measures are routinely used in German firms. However, they are rather seen as instruments of corporate planning and managerial accounting than as the sole purpose or number one goal of the firm. Although German firms have introduced shareholder-oriented practices (Fiss & Zajac, 2004; Tuschke & Sanders, 2003), they are still embedded in an institutional setting characterized by strong stakeholder rights, cooperation between corporate constituencies, and a coordinated market economy (Capron & Guillén, 2009; Hall & Soskice, 2001). In contrast to companies from shareholder-oriented governance systems, German firms tend to more actively manage the interests of their key stakeholders, in particular those of large owners and employees. The resulting stakeholder management is highly institutionalized and anchored in laws, social rules, and norms. Thus, German firms usually exhibit a very active stakeholder management (Jürgens, Naumann, & Rupp, 2000). Although the German economy has regained its economic strength, critics remain and point to the need to understand the relative utility of different elements of Germany's corporate governance and its implications for other governance systems. Due to these reasons, our study fills a research gap of prior studies, which have analyzed the advantages of stakeholder-oriented governance systems only with regard to firm outcomes rather than analyzing in detail the mechanisms associated with specific designs of stakeholder orientation (Harrison & Wicks, 2013; Hillman & Keim, 2001; Verbeke & Tung, 2013).

Beyond the specifics of Germany, we suggest that research on the instrumental value of stakeholder orientation at the level of national corporate governance is very timely. Considering that the degree of stakeholder orientation is one of the most prominent differences between national corporate governance systems (Aguilera & Jackson, 2003), a better understanding of the role of more or less stakeholder orientation of corporate governance systems is essential. It serves the growing interest in stakeholder value models as an alternative to purely shareholder-oriented governance (Aguilera, Filatotchev, Gospel, & Jackson, 2008). In this respect, a more fine-grained knowledge on the pros and cons of different corporate governance conceptualizations and a broader understanding of what valuable resources for firms that operate in networks of stakeholder and shareholders relations are seems beneficial. Against this background, we discuss not only positive outcomes but also challenges of the stakeholder value orientation of German firms and try to show that Germany is evolving toward a modern stakeholder value approach that aims at answering the needs of global capital markets and at decreasing problems associated with traditional stakeholder approaches, such as power imbalance or a lack of transparency.

Our analysis of Germany's current corporate governance contributes to different streams of literature. First, we add to research on the variety of different corporate governance systems (Aguilera & Jackson, 2010) and their effects on firm behavior and firm outcomes (Chang, Oh, Park, & Jang, 2015; Griffiths & Zammuto, 2005). We also contribute to the literature on pros and cons of stakeholder management in general (e.g., Harrison et al., 2010; Verbeke & Tung, 2013). By doing so, we also answer calls for a reorientation within stakeholder theory to examine the impacts of stakeholder management on broader concepts of firm performance (Laplume et al., 2008), and continue the theoretical debate about shareholder and stakeholder value (Freeman, Harrison, Wicks, Parmar, & De Colle, 2010; Hillman & Keim, 2001). Finally, we continue a smaller stream of literature on the specifics of Germany's corporate governance and the surrounding debates (e.g., Fauver & Fuerst, 2006; Fiss & Zajac, 2004; Sanders & Tuschke, 2007) by covering the latest status of Germany's corporate governance and its position within the large framework of different corporate governance systems around the globe.

International Corporate Governance and the Shareholder Versus Stakeholder Debate

Interest in the effects of national corporate governance settings on the competitiveness of firms is not limited to Germany. With the global expansion of financial and product markets and an increased exposure of domestic firms to international competition, a growing concern about the role of country-level institutions for industry or firm-level competitiveness has generally emerged in most countries across the world as they look to each other for potential advantages and disadvantages of national corporate governance systems (Aguilera et al., 2008; Christmann, Day, & Yip, 2000). Accordingly, scholars in this line of research call for a more in-depth view that advances the understanding on processes and conditions by which national institutions impact firm-level outcomes (Aguilera & Jackson, 2010; van Essen, van Oosterhout, & Heugens, 2013).

A starting point for this research is to understand in what ways national corporate governance systems vary and how a particular corporate governance system, such as Germany, can be classified along different dimensions. Although many such classification schemes exist, research on corporate governance has largely relied on those that classify the governance systems of developed market economies. Analyses focus on Anglo-Saxon countries, Europe, or Japan (Kaplan, 1997; Surroca & Tribó, 2008), and examine characteristics such as the board system, the relevance of capital markets, or the ownership structures of firms (Shleifer & Vishny, 1997). With regard to these characteristics, for example, Weimer and Pape (1999) provide an extensive taxonomy of national systems of corporate governance by differentiating between Anglo-Saxon, Germanic, Latin, and Japan as country classes of corporate governance systems.

Beyond classification on individual characteristics however, the most commonly used approach in management literature is to categorize countries as shareholder- or stakeholder-oriented. This classification approach is holistic and, therefore, in some ways more useful than others because the relative orientation toward shareholder versus stakeholder interest groups influences nearly all aspects of corporate governance. Although this classification is used to simplify the comparison of different systems, it is worth to note that there is potential variation of firm behavior within national corporate governance systems. Several firms in shareholder-oriented countries, such as the United States, explicitly follow a stakeholder-oriented approach in contrast to the prevailing shareholder value model. Likewise, firms in stakeholder-oriented countries can also pursue a strong shareholder-oriented management approach.

Despite the existing variation of firm behavior within countries, national corporate governance systems differ in the way they regulate rights, obligations, and relations of different actors with a stake in the firm based on historical developments (Aguilera & Jackson, 2003; O'Sullivan, 2000). These differences empower or constrain the influence stakeholders can impose over decision making and resource allocation within a firm and highly predispose the degree and modality of interaction between them (Aguilera & Jackson, 2003). Such differences are often rooted in formal laws and conventions as well as in informal norms and values and, thus, represent institutional settings, which are relatively persistent (Capron & Guillén, 2009).

Shareholder-oriented countries are characterized by a strong protection of shareholder rights, which particularly cover those holding only minority shares. Shareholder power is strengthened by active markets for corporate control, a dependency of firms on financing through capital markets, and clear transparency regulations (Hall & Soskice, 2001; La Porta, Lopez-de-Silanes, & Shleifer, 1999). In those countries, other stakeholders of the firm often have fewer claims when it comes to control over decisions and assets. For instance, the influence of employees is often relatively weak due to highly flexible labor markets (van Essen et al., 2013). Prime examples of shareholder-oriented systems are the United States and other Anglo-Saxon countries. On the contrary, in stakeholder-oriented governance systems, rights of different stakeholder groups are more equally distributed. With legal regulations or social conventions to integrate different stakeholders into firm governance and decision making, Germany and other stakeholder-oriented countries such as Japan are often mentioned as alternative models to the Anglo-American conception (Jackson, 2001; Kaplan, 1997).

The categorization into shareholder- or stakeholder-oriented governance is accompanied by two partly opposing paradigms, which influence and shape corporate governance systems around the world. Tracing back to early disputes about the purpose of privately held corporations and the conflicts arising from separation of ownership and control (Berle & Means, 1932), the shareholder value maximization paradigm proclaims that the most efficient way for managers to create value is to focus primarily on the interests of shareholders (Fama & Jensen, 1983; Jensen & Meckling, 1976). These claims were debated in research as well as practice very early on. For instance, in 1919, auto magnate Henry Ford lost a famous lawsuit in which he tried to defend his approach to withhold dividends for the benefit of stakeholders other than his shareholders in line with his view that business should also serve society (Lee, 2008). Just years later, in the 1930s, Berle's famous claim for shareholder orientation was criticized by his colleague Merrick Dodd, who suggested that business and corporate managers have responsibility for society beyond the interest of owners and, therefore, should engage in social responsibility (Dodd, 1932).

Nevertheless, shareholder value models dominated the public discussion at least in Anglo-Saxon countries. Potential solutions to align the interests of managers and shareholders,

for example, by the introduction of stock-option pay, were at the center of corporate governance debates throughout the second half of the 20th century (Jensen & Murphy, 1990; Shleifer & Vishny, 1997). Based on the general assumption that firms should pursue profit maximization as their "single-valued objective" (Jensen, 2002, p. 237), advocates of the shareholder perspective see stakeholder obligations as detrimental to firm success. In this view, managerial attention to stakeholders and stakeholder influence on firm strategy leads to inefficient resource allocations, impaired decision making, and reduced accountability of managers (Aguilera & Jackson, 2010; Jensen & Meckling, 1976). Engaging, for instance, in corporate social responsibility activities was assumed to be a symptom of an agency conflict because managers would use such activities to strengthen their positions at the expense of shareholders (Friedman, 1970). Managers who try to concentrate on multiple interest groups at the same time are expected to end up in unresolvable conflicts, leading them to make flawed decisions, which finally result in diminished value creation for all stakeholders (Jensen, 2002). Accordingly, the stakeholder orientation of German firms could reduce their competitiveness relative to firms from shareholder-oriented governance settings, which are free to concentrate their efforts on shareholder interests (Williamson, 1985). Moreover, in shareholder models, rights and interests of non-shareholding stakeholders are assumed to be completely covered by existing contracts with the firm (Fama & Jensen, 1983; Jensen & Meckling, 1976). Thus, firm management should exhibit only limited motivation to devote additional attention to their needs. If this applies, a tradition of devoting much attention to stakeholders—as it is the case in Germany and other stakeholder-oriented countries—should be an excessive burden and would not provide any additional value for firms.

However, the stakeholder paradigm disagrees with several assumptions made in shareholder value models. It suggests that balancing interest of different stakeholders, including non-shareholders, is superior with regard to overall value creation (Donaldson & Preston, 1995; Freeman, 1984; Freeman et al., 2010). Rather than focusing on a single objective, firms should acknowledge that "each group of stakeholders merits consideration for its own sake and not merely because of its ability to further the interests of some other group, such as the shareowners" (Donaldson & Preston, 1995, p. 67). Placing the interest of one group (i.e., shareholders) above all others is assumed to take place at the expense of those who receive less attention (Donaldson & Preston, 1995). It is further argued that through balancing interests and pursuing multiple objectives, firms are better able to increase value, which in the end sustains overall welfare for all constituencies of the firm (Freeman et al., 2004; Jones, 1995). Stakeholder orientation is said to be associated with reduced costs in the long run, due to a reduced need for control—for example, through less information asymmetries—and more efficient transactions (Freeman, 1984). Most important, attention to stakeholders is expected to secure access to valuable resources beyond what is offered on the basis of contracts (Barney & Hansen, 1994; Harrison et al., 2010; Hillman & Keim, 2001).

In contrast to shareholder models, it is also argued that attention to stakeholders does not generally hamper the interest of shareholders. Non-normative stakeholder models such as the instrumental stakeholder theory already take shareholder interests into account, as part of a wider stakeholder perspective (Freeman et al., 2004; Jones, 1995). Consequently, the underlying assumption of many business studies—that is, that the interests of shareholders and (other) stakeholders are generally in conflict—can be challenged. Moreover, the instrumental view deems the interests of stakeholders (including shareholders) as largely overlapping because each stakeholder group is to a greater or lesser extent dependent on all other stakeholders (Harrison & Wicks, 2013). Seeing corporate governance through this lens, firms in stakeholder-oriented governance settings might not suffer from their stakeholder orientation, as traditional agency- or shareholder-oriented models would assume, but instead ameliorate their competitiveness through constructive stakeholder relations.

Before we proceed with the analysis of Germany's stakeholder-oriented corporate governance system, we want to emphasize that not all existing stakeholder relations are explicitly addressed. Although early stakeholder theorists labeled stakeholders as any "group or individual who can affect or is affected by the achievement of the organization's objectives" (Freeman, 1984, p. 46), most current studies embrace a more nuanced definition of stakeholders depending on the given problem or context at hand (Capron & Guillén, 2009; Harrison et al., 2010; Hillman & Keim, 2001; Walsh, 2005). Likewise, we focus on stakeholders at the firm level that can exert significant influence over asset control, decision making, and resource allocation (Aguilera & Jackson, 2003). Other stakeholder groups such as customers or the society at large are only indirectly addressed.

Corporate Governance in Germany

Stakeholder orientation in Germany has a long history. After the end of the Second World War, the rebuilt state authorities of Western Germany installed a model of a social market economy, which combined elements of free market economies with strong social welfare systems and high coordination of market actors (van Hook, 2004). Subsequently, the power of central stakeholder groups, in particular those of employees, was strengthened in two phases (Fohlin, 2005). In 1951, the government introduced the Cooperative Management Law (Montan-Mitbestimmungsgesetz), which set the ground for the cooperative approach to shareholder and employee rights in the governance of stock-listed firms. Later, in the 1970s, the

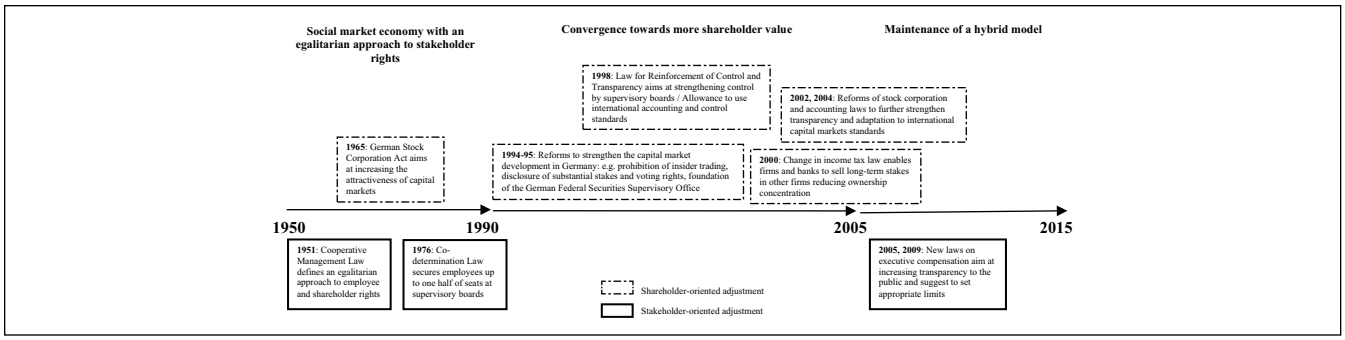

Figure 1. Legislative adjustments to Germany's corporate governance between 1950 and 2015.

Co-determination Law (Mitbestimmungsgesetz) further solidified the role of employee representatives.

After the fall of the Iron Curtain in 1990 and the reunification of Germany, German firms tried to introduce a more shareholder-oriented management style in reaction to pressures from the internationalization of capital and product markets (Tuschke & Sanders, 2003). Influenced by the Anglo-American model of shareholder value, the introduction of stock-based compensation of executives, transparent accounting standards, and a general shift toward more market-based control systems aimed at increasing competitiveness in global markets (Fiss & Zajac, 2004; Sanders & Tuschke, 2007). During this time, some researchers expected a convergence toward the Anglo-American governance model of shareholder orientation (Yoshikawa & Rasheed, 2009). However, the introduction of shareholder-oriented practices often violated the dominant institutional logic in Germany (Sanders & Tuschke, 2007). Although German firms were increasingly embedded in institutional contexts outside of Germany and, therefore, amendable to market-oriented changes, the society at large as well as legislative forces were more reluctant. Many suspected the introduction of shareholder-oriented practices to go at the expense of other stakeholder groups and, therefore, acted to preserve the traditional norms and values of an egalitarian governance model. Thus, the central characteristics of the traditional stakeholder model, such as, for example, co-determination regulations, have endured all transformations (Tuschke & Luber, 2012). Figure 1 provides an overview of legislative adjustments to Germany's corporate governance between 1950 and 2015.

One of the persisting traditional characteristics of Germany's corporate governance is the separation of the supervisory and management functions through a two-tier board structure, consisting of a management board—akin to the top management team in U.S. firms—and a supervisory board that can be compared with outside directors in the United States (Fiss & Zajac, 2004). The management board defines and implements strategies, leads firm operations, and reports to the supervisory board. The German supervisory board is responsible for monitoring long-term strategy and executive performance, appointing and dismissing the CEO, and setting compensation for top management team members. Unlike in the Anglo-American governance system, members of the management board are not allowed to serve on the supervisory board. With its clear distinction between decision making and decision control, the two-tier system provides German supervisory boards with a stronger monitoring focus than their Anglo-American counterparts. Thus, stronger board monitoring serves as a balance for weaker control from capital markets.

Another distinct feature of Germany's corporate governance is that the supervisory board is subject to employee co-determination. Up to one half of the seats on the supervisory board of listed firms are legally reserved for employee and union representatives. Consequently, employees have a say in monitoring and advising relevant strategic and governance decisions made at the top of the firm. This is further strengthened by the general presence of highly organized works councils in nearly all larger firms (Mueller, 2012). Potential conflicts arising from the strong representation of employees at supervisory boards are partly reduced by a legal mandate for the chairman of the board to mediate conflicting interests between employee and shareholder representatives (Interessenausgleich). In a similar vein, the strong monitoring focus of German boards is attenuated by the living practice of close relations, intense communication, and consensus seeking between the chairman, other members of the board, and the top management team (Aguilera & Jackson, 2003).

Germany's corporate governance is also characterized by its relatively concentrated ownership structure, compared to countries with highly developed capital markets, such as the United States or the United Kingdom (Thomsen, Pedersen, & Kvist, 2006). Groups of strategically oriented blockholders such as banks, family owners, or other corporations enforce strong influence over many firms in Germany (Tuschke & Luber, 2012). These blockholders tend to show greater commitment to a particular firm than other shareholders. For instance, banks frequently show greater involvement in a

firm's strategic decision making than other financial investors because they are interested in stable and long-term relationships with a firm to keep a vital creditor relationship alive (Jackson & Moerke, 2005). Thus, they display an overlap of interests as both shareholders and business partners of a firm. Especially, the role of banks as investors has been a dominant characteristic of Germany's corporate governance while it is also visible in other stakeholder-oriented countries, such as Japan (Jackson, 2001). Although state ownership is no longer widespread in German firms, there are some notable exceptions such as, for example, Volkswagen, which is governed through an unusual hybrid of family control, government ownership, and labor influence, and the German state of Lower Saxony holds 20% of voting shares. Another prominent example is Deutsche Telekom, which was formerly 100% state owned and where the German Federal Government still holds 14.3% of shares.

Family ownership, which is frequent even within the largest German firms and very common among small- and medium-sized firms (Andres, 2008), shows similar patterns. As family firms are often managed by founders or their relatives, a concurrence of management and ownership is typical (Fama & Jensen, 1983; Hutchinson, 1995). Here, interests of family owners generally go beyond short-term profits to include a more sustainable perspective on firm control, development, and survival (James, 1999). Family firms are also characterized by close relationships to stakeholders and strong embeddedness in networks of local communities (Gomez-Mejia, Cruz, Berrone, & De Castro, 2011). Thus, as large owners in German firms are often involved in a firm's strategic planning and decision making, they tend to emphasize long-term interests. In return, firms have to recognize the particularly strong influence of large owners and possibly take their interests into account. This can create two-way interest relations resulting in cooperative approaches in which blockholders as important stakeholders of the firm receive additional attention in return for their engagement.

Overlapping interests also used to be a main characteristic of the dense network of relations between German firms referred to as "Germany Inc.". German firms were highly related through multiple cross-holdings (La Porta et al., 1999; Windolf & Beyer, 1996). Over the last years, however, these dense relations have increasingly dissolved (Heinze, 2004). Similarly, executives of larger German firms tended to serve on supervisory boards of other firms, and German directors regularly held seats on the boards of several firms. This created strong social relations between firms through multiple board interlocks. The slowly resolving but still existing network of overlapping relations is said to be associated with a long-term alignment of strategic goals, higher levels of cooperation, and protection against external interventions such as hostile takeovers (Tuschke & Luber, 2012; Windolf & Beyer, 1996). However, in line with findings from previous research that board interlocks lead to the establishment of a cohesive "corporate elite" accountable only to themselves (Useem, 1984), German corporate governance legislation has aimed to reduce the amount of interlocks, for example, by limiting the number of boards an individual director is allowed to serve on.

A further typical element of the German economy, which is associated with Germany's stakeholder orientation, is the strong presence of small- and medium-sized enterprises (SMEs). A large portion of these firms are controlled by a majority of members of the same family or a small group of families, thus showing a close link to the characteristics of family firms. Although a strong sector of SMEs is not directly related to the German governance model, its existence has wider implications for the general role of different stakeholders in Germany. Similar to family firms, SMEs are traditionally strongly rooted in stakeholder relations and exhibit quite strong commitment to different stakeholders (Berghoff, 2006).

The typical elements of Germany's corporate governance, a two-tier board system, employee co-determination, concentrated ownership with a large proportion of blockholders, dense networks of business and social relations between firms, the common presence of family ownership, and a strong sector of SMEs and industrial firms demonstrate that stakeholder orientation and stakeholder management are deeply anchored in Germany's economy. Accordingly, stakeholder orientation in Germany can be considered to be highly institutionalized. As firms are constricted not only by the legislative framework but also by the structure and characteristics of the institutional environment, corporate governance regulations as well as common practices and traditions directly shape firm-level decisions (Aguilera & Jackson, 2003; Dacin, Goodstein, & Scott, 2002). According to institutional theory, institutionalized activities are rooted in values and habits, corporate culture, shared beliefs, or social rules, and represent socially accepted conditions, which are relatively resistant to change and tend to persist even if rewards or advantages of their existence diminish (Dacin et al., 2002; Oliver, 1992). Thus, irrespective of shareholder-oriented changes in corporate governance regulations, German firms generally pursue an active management of influential stakeholder groups, including awareness and monitoring of stakeholder interests in strategic planning to anticipate effects on firm strategies.

As mentioned in the beginning, shareholder value models would assume that boundedness of German firms to stakeholders should weaken their competitiveness compared with firms from countries with more shareholder-friendly governance systems. However, insights from the instrumental stakeholder view and literature on the value of stakeholder management as a source of competitive advantage challenge such models of the firm (Harrison et al., 2010). Although stakeholder orientation might not be a source of competitive advantage per se, it could be argued that firms in such

settings can create competitive advantage through active management of stakeholder relations. This might occur parallel to typical conflicts that arise from strong stakeholder orientation.

Stakeholder Orientation as a Source of Competitive Advantage?

Stakeholder theory has early on stressed potential advantages for firms that follow a stakeholder-oriented management approach (Freeman, 1984). Meanwhile, a growing number of empirical studies support the basic notion that firms whose managers take a stakeholder-oriented approach can outperform those who do not (e.g., Berman, Wicks, Kotha, & Jones, 1999; Hillman & Keim, 2001; Kacperczyk, 2009). In one of the first studies, Ogden and Watson (1999) found that, although more stakeholder orientation is costly for firms, it can lead to an increase of shareholder value. Likewise, Berrone, Surroca, and Tribó (2007) explain how stronger inclinations of firms to act ethically in stakeholder relations increase stakeholder satisfaction, which subsequently leads to better firm performance. Later studies advanced the understanding of the positive relation between stakeholder management and firm performance by showing, for instance, that stakeholder orientation can be beneficial because managers—against the assumptions of the shareholder value perspective—engage in more long-term and value-oriented strategies when pressures of capital markets are reduced (Kacperczyk, 2009). Other scholars have pointed out that stakeholder management not only increases goodwill of stakeholders but also leads to the reduction of risk-associated costs (Godfrey, 2005). In addition, a large body of studies on the effects of corporate social responsibility has found that even those activities that benefit stakeholder groups that are not directly involved with a firm, such as social communities, can lead to positive firm outcomes (Aguinis & Glavas, 2012; Margolis & Walsh, 2003).

Based on this broad empirical basis, the evolving instrumental stream within stakeholder theory has gained considerable momentum. It is based on the assumption that "firms that contract (through their managers) with their stakeholders on the basis of mutual trust and cooperation will have a competitive advantage over firms that do not" (Jones, 1995, p. 422). Thus, rather than solely focusing on ethical issues often stressed in normative stakeholder theories, the instrumental view concentrates on achievements relevant for performance. It tries to resolve the usual tension between ethical viewpoints and needs for performance optimization.

Scholars using the instrumental perspective dig into processes by which different stakeholders provide or represent important resources for the firm. Many studies in this field base their theoretical models on the assumptions of the resource-based view of the firm (Barney, 1991; Barney & Clark, 2007), which argues that differences in the competitive advantage of firms in the same industry or product market can be traced back to differences in the access, configuration, and combination of resources (Black & Boal, 1994). Thereby, advantages that are socially complex, have a high path dependency, and are ambiguous in their causality are considered to be more sustainable because they are very difficult to imitate by competitors (Barney & Clark, 2007). As discussed before, stakeholder orientation in Germany is highly rooted in social rules and norms. It can be considered to be a historically grown, socially embedded, and for outsiders often vague construct. Thus, German stakeholder orientation could fulfill several important prerequisites of a sustainable competitive advantage. Moreover, structurally complex, intangible resources such as legitimacy, knowledge creation, or trust that contribute to a competitive advantage because they are hard to imitate are particularly influenced by positive stakeholder relations (Barney & Hansen, 1994; Dyer & Hatch, 2006; Hillman & Keim, 2001).

However, against the background of the resource-based view, positive-sum relationships to employees, owners, and other stakeholders only contribute to a firm's competitive advantage insofar as they are superior to those created by other firms. Stronger orientation toward stakeholders will not automatically lead to improved firm outcomes. On the contrary, strong stakeholder groups that are not managed adequately can even diminish firm performance because those stakeholders can detract created values (Coff, 1999). Actors in business relations are only cooperative to the degree they perceive a relationship to be fair in the way inputs and outcomes are distributed (J. S. Adams, 1965; Hosmer & Kiewitz, 2005). Stakeholder relations are sensitive not only to the final distribution of value, but to the process by which the distribution is negotiated and decided (Phillips, Freeman, & Wicks, 2003). Overall, it can be argued that "a consistent stakeholder management strategy is likely to be more competitive than a strategy that 'picks and chooses' the stakeholders it wants to treat well" (Harrison et al., 2010, p. 67). Thus, success of stakeholder management depends greatly on the quality of existing relations. Firms that are able to create stakeholder management strategies that secure adequate information sharing, perceived fairness, and respect in interactions as well as relative parity in value distribution are likely to profit more from stakeholder relations than competitors who are less able to do so (Harrison et al., 2010).

Benefits of Stakeholder Orientation in Germany

The tradition of stakeholder orientation in Germany provides a positive ground for fair relations. A very important aspect is worker co-determination. Although worker co-determination is sometimes associated with reduced decision-making quality (Gorton & Schmid, 2004), others point out that there

is no one-way relationship between co-determination and the quality and effectiveness of strategic decisions (Fauver & Fuerst, 2006). The value of worker co-determination may depend—even more than other stakeholder relations—on the quality of the relation itself. Co-determination might only be beneficial in a setting where it can contribute to an increase in trust, commitment, and motivation.

In market- and shareholder-oriented governance settings, employees are among those stakeholder groups with the lowest influence on strategic decisions and, therefore, often have to take the greatest cutbacks within change processes (Griffiths & Zammuto, 2005). This makes positive reactions and respective contributions of employees to change processes less likely. In contrast, the German corporate governance setting highly protects workers' rights and provides an institutionalized frame for engaging them in firm decision making. This can make an important difference when it comes to strategic adaptations that occur at the expense of employees. Extant research shows that the success of change initiatives greatly depends on attitudes and reactions of employees (Kotter & Cohen, 2002). For instance, participation of employees during strategic change initiatives is said to reduce resistance and to increase commitment (Lines, 2004). Participation may also foster the willingness to accept temporary personal losses to help a firm to survive.

This kind of positive outcomes of co-determination in reaction to organizational crises and intensive strategic change can be regularly observed in Germany. For instance, Opel, a German subsidiary of General Motors, was about to go bankrupt in 2008 ("GM vor der Insolvenz," 2008). In the face of bankruptcy, union and employee representatives, the top management of Opel and General Motors, as well as the local state government negotiated an egalitarian solution. Bankruptcy could finally be avoided because employees accepted substantial wage reductions and payment in shares in exchange for job security ("GM Europe," 2009). This solution would hardly have been achieved without the strong voice and position of employee representatives and the willingness to cooperate even in light of a severe crisis. Although in the aftermath of the 2008 financial crisis, car producers around the world filed for bankruptcy or had to merge with competitors to survive, the German car industry—although currently suffering from spillover effects of the Volkswagen scandal—endured this phase with the help of various stakeholder groups ("Auferstanden nach der Krise," 2011). This shows that co-determination and the general way of stakeholder management in German firms increase trustful relations between owners, managers, and employees and, therefore, can add to the stability and long-term competitiveness of German firms. Moreover, it reveals the benefits of a broader social legitimacy of stakeholder-oriented management whose positive effects also have been confirmed by empirical studies (e.g.,., Heugens, van den Bosch, & van Riel, 2002) and are visible also in other stakeholder-oriented governance systems, such as Japan, where the close networks between firms and different stakeholders groups show similar patterns of high embeddedness (Jackson & Moerke, 2005).

The active management of employee relations can also be an important channel of improved learning and innovation outcomes for firms. To stay innovative, firms must constantly seek to increase their ability to integrate, recombine, or detect valuable knowledge from inside as well as outside the organization (Lewin, Massini, & Carine, 2011). However, learning and innovation processes are often characterized by bounded rationality and limited perceptions about the best way of adapting the firm to changes in the business environment (Greve, 2003). These challenges can be mitigated by accessing nuanced information from stakeholders. Co-determination through board seats or works councils, for instance, is associated with reduced information asymmetries and more information exchange between firm management and employees (Fauver & Fuerst, 2006). This can lead to an improved use of existing internal knowledge as well as an enhancement of learning opportunities because employees often have closer access to - and a better understanding of, the firm's products and customer needs.

Another aspect in this context is the ability of firms to learn constantly over time. Due to a more egalitarian approach in many German firms, employees stay with one firm for a longer period of time. Moreover, as shown by Turban and Greening (1997), paying attention to stakeholder interests makes firms more attractive to highly skilled employees, which are considered to be an important aspect of sustainable competitive advantage (Colbert, 2004). Indeed, German firms build their competitiveness often on a highly experienced workforce (Culpepper, 1999). Consequently, based on trustful and stable relations, employees are more willing to increase their firm-specific skills and knowledge and are, thus, better able to contribute to high product quality and expertise—a typical strength of German firms. This shows that stakeholder-oriented German firms are likely to profit from their investments in employee relations because attitudes and performance of employees are improved when firms are able to create levels of mutual exchange (Tsui, Pearce, Porter, & Tripoli, 1997).

In addition, networks and large owners can play an important role in learning and innovation processes. Dyer and Hatch (2006) show, for instance, that carefully maintained management networks with important stakeholders enhance knowledge sharing and creation, which finally leads to superior firm performance. Establishing interactions between firms through board interlocks is a typical element of Germany's corporate governance and has positive implications for strategic decisions and learning processes of firms. An example is the impact of board networks on the investment decisions of German firms in the newly accessible countries of Eastern Europe after the fall of the Iron Curtain

in 1990 (Tuschke, Sanders, & Hernandez, 2014). Interlocks to peers with experience in Eastern European countries helped these firms to learn about the opportunities and risks in these markets and made investments more likely. Although board networks have been shown to provide positive effects also in shareholder-oriented governance system such as the United States, German board interlock networks are different with respect to the density and characteristics of interlocks. For instance, van Veen and Elbertsen (2008) found that German firms, due to the structural arrangements of the German corporate governance system, are less likely to have foreigners on their supervisory boards. Thus, German board networks exist primarily between German companies, leading to dense and unique national networks. At the same time, however, negative effects associated with the social cohesion and intransparency inherent to these dense networks (e.g., Useem, 1984) are reduced by regulation, limiting the number of boards an individual is allowed to serve on, as well as soft laws calling for diversity (with regard to background, gender, and skills) within boards. Furthermore, compared with market-oriented economies with more dispersed ownership structures, a great number of interlocks between firms in Germany were created based on equity cross-holdings (La Porta et al., 1999; Windolf & Beyer, 1996), thus, coupling personal ties and ownership structures. Similar structures can be found in other stakeholder-oriented systems (Aguilera & Jackson, 2003) and seem to be a correlate of stakeholder-oriented corporate governance. Although both the traditional networks based on interlocks as well as cross-holdingshave diminished—partially due to deliberate efforts to reduce these phenomena—they are still a relevant part of the German governance landscape providing potential benefits for firms.

Another example from the German car manufacturing industry supports this view. The Quandt family has been a major shareholder and an influencing force at BMW—one of the largest German car manufacturing companies—since the 20th century. In 2013, the Quandt family invested in SGL Carbon and Susanne Klatten, member of the Quandt family, took over the chairman position ("Klatten wird Aufsichtsratchefin," 2013). SGL Carbon produces carbon fibers that are used to manufacture lightweight automobiles and are expected to be of great importance for future competitiveness in the automobile sector. As investors and owner of the chairman position at SGL Carbon and with a seat and a strong voice at the board of BMW, the Quandt family established a link to spur innovations and organizational learning between these two companies, thus, providing further evidence for the assumption that unique board characteristics of national board systems do have direct effects on firm-level behavior (Chang et al., 2015).

Beyond positive effects on innovativeness and learning capabilities, the influence of owners with solid and lasting relations to firms can also work as protection against competitors. Schneper and Guillén (2004), for instance, show that the likelihood of hostile takeover increases when rights of workers and banks are less protected in comparison with shareholder rights. In the case of Roland Berger Strategy Consultants (RBSC), the number three in the German consulting market, internationalization efforts could only be realized without falling victim to hostile takeover attempts due to a strong commitment of RBSC's owners. In 2010, RBSC's limited financial power restricted its ability for expansion in international markets, and takeover attempts by multinational accounting firms could only be repelled by a coalition of RBSC's founder and related partners who were willing to invest a substantial part of their own capital to finance the firm's further internationalization ("Roland Berger soll jetzt doch eigenstaendig bleiben," 2013). Thus, only by the commitment of their cooperative owners, RBSC succeeded in remaining independent. Such an example can also be found in shareholder-oriented governance settings, but is more likely and attainable in a setting that favors cooperative relations between owners and firm management. However, it should be noted that the influence of large owners in Germany is sometimes also associated with decreased flexibility and a limitation of investments. Nevertheless, empirical studies on concentrated ownership in Germany often suggest positive relations with firm performance (Gorton & Schmid, 2000). This applies especially for the case that large blockholders are also part of the founding family (Andres, 2008).

These empirical studies and the example of RBSC also point to a further potential advantage of Germany's stakeholder orientation—the long-term perspective on strategic developments. Different time horizons regarding firm strategy seem to be one of the fundamental discrepancies between shareholder and stakeholder orientation (Aguilera & Jackson, 2003; Yoshikawa & Rasheed, 2009). Although firms in shareholder-oriented governance settings are generally under strong pressure from capital markets—which are often short-term focused—stakeholder-oriented governance systems expose a more long-term perspective due to the firm-specific boundedness of stakeholders. Although the long-term existence and prosperity of a company is in the interest of many shareholders, it is not necessarily their primary goal. For shareholders, for instance, who are planning to divest their ownership in a firm, short-term profits are by far more attractive. This can create conflicts between short-term profit motives of some shareholder groups and long-term interests of other stakeholders of a firm. Stakeholder value orientation, in contrast, is expected to lead to a more sustainable and holistic perspective on firm performance and to be less driven by short-term profit maximization (Laplume et al., 2008).

Accordingly, a problem associated with the more sustainable and holistic perspective of Germany's corporate governance is that strategic decisions might be less oriented toward maximizing profits. It is assumed that stakeholder-oriented governance helps influential stakeholder groups to advance individual rents at the expense of the firm (Freeman et al., 2010). However, a lot of what is regarded as a valuable resource

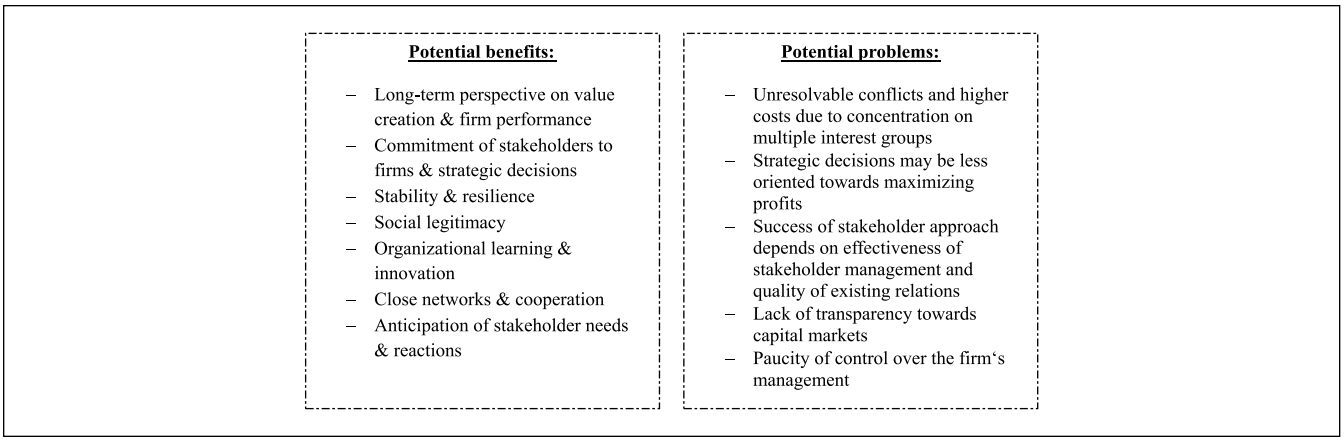

Figure 2. Potential benefits and problems of a stakeholder-oriented corporate governance.

only develops over a longer period of time. Therefore, managing stakeholder relations in a way that adheres to the needs of a firm as well as its stakeholders in a mutually beneficial manner might increase overall welfare of all parties (Harrison et al., 2010; Walsh, 2005). Following these lines of thought, stakeholder orientation and management in Germany could constitute valuable resources in several ways. Figure 2 summarizes the benefits as well as the potential problems associated with a stakeholder-oriented corporate governance system that we have discussed so far.

Toward a Modern Stakeholder Value Approach

It should not be disregarded that a governance system characterized by a strong stakeholder value orientation poses unique challenges and problems. For instance, close relations with various stakeholder groups can be used to disguise a lack of transparency toward capital markets as well as a paucity of control over the firm's management. Many common practices in Anglo-American firms that address exactly these problems were non-existent in Germany for a long time. Among these practices are large and professionalized investor relations departments, periodic roadshows to meet with important analysts and investors, as well as transparent accounting standards. In fact, a lack of transparency and a reluctance to answer the needs of global investors hindered the development of capital markets and created problems with regard to the financial strength of German firms (Hackethal, Schmidt, & Tyrell, 2005). Today, structures and practices that enhance information transparency and market-based control over management are frequently used, as German firms have recognized the importance of access to global capital markets.

Besides increasing information transparency and market-based control over management, lawmakers addressed some challenges of a stakeholder-oriented governance system in a way that is unique to Germany. A change in tax laws, for instance, made it easier for German firms and banks to sell their equity stakes in other firms (Weber, 2009). As a result, the high density of equity cross-holdings between firms could be reduced, thus exposing the firms more to the demands of capital markets. In addition to the decomposition of equity cross-holdings, several agencies were founded to better supervise firms and to avoid problems such as insider trade, insufficient financial disclosure, or unclear voting rights (Cioffi, 2002), which commonly occur in stakeholder systems because of power imbalances between different stakeholder groups.

An important step in the modernization of Germany's stakeholder systems was the creation of a German Corporate Governance Code, which was introduced in 2002 (Jackson & Moerke, 2005). This code of conduct aims at higher transparency and more control from capital markets by integrating selected elements of a shareholder value-oriented governance approach into the existing stakeholder-oriented corporate governance. For instance, it recommends supervisory boards to be more professionalized and to take a more active role in firm governance without recommending to change the general two-tier board structure. To provide orientation and to avoid conflicts, the German Corporate Governance Code tries to find compromises for different stakeholder groups. In doing so, it is well aligned with decision-making processes in typical stakeholder-oriented systems.

It is also argued that the increased orientation toward capital markets as well as the associated stronger engagement of institutional investors are central reasons for Germany's economic recovery over the last few years. Irrespective of a strong stakeholder orientation, typical shareholder-oriented elements such as financial performance indicators and value-based metrics play an important role in the management of German firms. However, in contrast to their U.S. counterparts, German firms do not necessarily view value-based metrics as a strategic goal; rather, they are seen as a means of

corporate planning controlling. By doing this, firms can meet the requirements of global capital markets without affecting the highly valued tradition of stakeholder orientation. In this sense, Germany's corporate governance pursues a modern stakeholder approach that aims at combining positive aspects of "both worlds."

Discussion

In this article, we examined stakeholder orientation as a central characteristic of the German corporate governance system. We asked whether this orientation is an advantage or disadvantage for German firms regarding their competitiveness in international markets and highlighted positive impacts in areas such as innovations, organizational learning, or change management. Despite the interest in shareholder versus stakeholder conceptions of corporate governance, their analysis is predominantly conducted with an agency perspective (Jensen, 2002; Jensen & Meckling, 1976) in mind, leading to predisposed support for shareholder conceptions because potential benefits resulting from stakeholder engagement are often neglected.

In our discussion, we demonstrated that a stakeholder-oriented governance system can have a number of advantages. Stable relations to stakeholders based on mutual trust and commitment can create lasting access to valuable resources. Moreover, a stronger commitment toward stakeholders may support innovations and organizational learning and may help the firm to manage change. German firms may tap the potential of stakeholder relations more effectively because they are highly experienced in doing so. Refined knowledge and expertise in stakeholder management enable them to better understand the value of stakeholder relations. It could be argued that they know how to profit from relations to stakeholders rather than view them as time consuming and non-effective. Stable relations with stakeholders as well as expertise in stakeholder management are institutionally anchored in the German governance system. This provides an environment in which positive effects of stakeholder management are facilitated.

However, we have also highlighted some of the potential problems associated with stakeholder-oriented corporate governance such as, for example, unresolvable conflicts among stakeholder groups or higher costs. For some of these potential problems, we have discussed how they have been addressed by firms and policy makers in Germany by implementing mechanisms that are more common to shareholder-oriented governance systems. For example, German firms have recognized the importance of access to global capital markets and have, therefore, installed structures and practices that enhance information transparency and market-based control over management. We have also shown how lawmakers have promoted the decomposition of equity cross-holdings between firms, thus exposing firms more to the demands of capital markets. In addition, several agencies have been founded to better supervise firms and to avoid problems commonly associated with the imbalance of power between different stakeholders such as insufficient financial disclosure or unclear voting rights.

However, one major problem of the stakeholder approach that remains is that its success depends strongly on the quality of the existing relations. Particularly strong stakeholder groups that are not managed adequately can diminish rather than enhance firm performance (Coff, 1999). Whereas stakeholder relationships characterized by mutual trust and commitment toward the success of the firm can serve to benefit the firm, relationships that lack these criteria can detract value. In light of recent scandals among German firms (i.e., the bribery scandal at Siemens in 2007, the recent scandal at Volkswagen involving the use of software to circumvent U.S. emissions standards), German firms, regulators, and society at large have highlighted weak, clannish, or self-interested stakeholder relationships as partially responsible. For example, Volkswagen has been described as having a "clannish board" as well as unusually high levels of mutual backscratching among owners, unions, and the government ("Problems at Volkswagen," 2015). Although Volkswagen stands out among German firms in its unusual governance hybrid of family control, government ownership, and labor influence, it could be argued that Germany's stakeholder-oriented governance approach may be conducive to scandals when stakeholder interests are highly intertwined. However, instead of generating doubts about the benefits of a stakeholder-oriented corporate governance, these scandals have led to an effort to look for ways to improving the quality of relationships with stakeholders. This ongoing discussion in Germany, for example, involves ways in which worker co-determination can help to reduce a climate of performance pressure and intimidation that was said to be conducive to deception and fraud at Volkswagen ("Warum die interne Kontrolle bei VW erneut versagt hat," 2015). Furthermore, in a recent interview, Manfred Gentz, chairman of the German Corporate Governance Code Commission, suggested that completely eliminating corporate scandals via corporate governance regulation is impossible. According to Gentz, criminal acts will at some point have to be left to legal prosecutors, especially in light of Germany's current mixture of incorporated shareholder value practices and an institutionalized stakeholder-oriented rationale. Instead, he called for all stakeholders to become involved in improving firm culture and values ("Das Bild des ehrbaren Kaufmanns ist angekratzt ," 2016).

Lessons from the German context portrayed in this article could serve as blueprint and comparison for adaptations in other corporate governance systems. On the one hand, shareholder systems, for instance, the system of the United States, could learn from the German model of governance and how German firms are able to manage stakeholder relations in a

mutually beneficial manner. One the other hand, stakeholder-oriented systems may also learn from the German approach. For instance, Japan's often cited stakeholder regime suffered from ongoing stagnation over the last decades (Garside, 2012). Supposedly, a too-strong stakeholder orientation could have been a cause for this. Against this background, it seems interesting that German firms adhered to an overall stakeholder orientation while incorporating selected elements of a more shareholder-oriented approach. This allows for a modern stakeholder approach that answers the needs of global capital markets while staying strongly embedded in a stakeholder-oriented governance system. Thus, in the absence of an ideal prototype model of corporate governance (Yoshikawa & Rasheed, 2009), hybrid solutions that intelligently integrate different elements, such as it is the case in Germany, could turn out to be successful.

Irrespective of ideological contentions about the relative merits of shareholder or stakeholder orientation and cooperative or competitive approaches to stakeholder relations, corporate governance research should continue to investigate how differences in stakeholder orientation between countries impact firm-level outcomes. Research interested in relative advantages of any governance model should explore how and when different modes of stakeholder relations contribute to firm outcomes to advance our knowledge on the role of governance settings for the competitiveness of firms.

Against this background, it is also important to note that classifications into shareholder or stakeholder governance are not as clear as theory suggests. First, stakeholder orientation can be interpreted differently depending on the national governance context. For U.S. firms settled in a shareholder-oriented governance setting, stakeholder orientation means that firms address other stakeholder groups more than one would normally expect of them. On the contrary, in stakeholder-oriented governance settings, such as Germany, the same amount of stakeholder orientation might not be viewed as a strong sign of stakeholder orientation because of the higher level of overall stakeholder orientation.

Second, firm leaders may not distinguish between shareholder or stakeholder orientation in their management approach as clearly as the different paradigms seem to suggest (R. B. Adams, Licht, & Sagiv, 2011). Lorsch and MacIver (1989) show, for instance, that a majority of corporate directors in the United States see themselves as more responsible for the long-term interest of several stakeholders than for shareholder concerns only, but often hide their inner values in board discussions to maintain an image of shareholder focus. In this vein, firms within a given corporate governance system might also try to compensate for restrictions and downsides of the national governance conceptualization. Accordingly, the influence of shareholder- or stakeholder-oriented corporate governance systems on firm outcomes is likely to be moderated by heterogeneity of management and firm-level decisions.

Third, there is more research needed on the impact of different national corporate governance systems on the mechanisms behind firm-level decisions. We know from a number of prior studies that differences between national corporate governance institutions do influence the success of business strategies at the firm level (Capron & Guillén, 2009; Jain & Jamali, 2016; O'Sullivan, 2000). For example, Kacperczyk (2009) shows that an increase in stakeholder orientation following changes in exogenous conditions can be linked to long-term growth in shareholder value suggesting that firm-level decisions can be more or less adequate depending on the relative position of stakeholders in a certain corporate governance system. Furthermore, Schiehll and Martins (2016) provide an extensive summary of cross-national governance literature with regard to firm-level outcomes that highlights numerous influences of national corporate governance systems on firm strategy and performance. A number of studies have also analyzed the relationship between corporate governance and firm-level decisions and performance specifically for the German market (e.g., Andres, 2008; Fauver & Fuerst, 2006; Kaplan, 1997). However, we still lack knowledge on how exactly managers are influenced in their decision making by corporate governance. In this regard, prior research has argued that corporate governance may be less influential for managerial decisions because firms find ways to overcome restrictions or only adhere to them symbolically. Fiss and Zajac (2004), for instance, show that the introduction of shareholder-oriented practices in German firms partly aimed at merely signaling shareholder orientation to investors and capital markets, although the convention of a stakeholder-oriented management has not changed fundamentally. Future research, therefore, should pay attention to how corporate governance practices are employed by managers to benefit the firm versus when managers attempt to avoid their adoption.

Conclusion

In our revisit of Germany's corporate governance, we aimed at taking a fresh look at advantages, downsides, and unique challenges of a stakeholder-oriented system. Linked back to theoretical discussions about shareholder and stakeholder value and differences in international corporate governance, we based our investigation on instrumental stakeholder theory and resource-based approaches to stakeholder management. We revealed that a stakeholder-oriented governance setting such as Germany can encourage firms to pursue a thoughtfully implemented stakeholder management. By processes of cooperation, trust, information sharing, and long-term commitment, stakeholders that are effectively managed can contribute to a firm's competitiveness by providing valuable and unique resources. In addition, paying attention to stakeholders can lead to more balanced decisions that integrate short- and long-term strategic perspectives. Nevertheless,

a traditional stakeholder-oriented system—as it was the case in Germany until the mid-1990s—is likely to also have a number of disadvantages, which can limit its competitiveness. Demands of global capital markets made it necessary for German firms to introduce a number of shareholder-oriented governance elements. However, these elements are strongly embedded in a stakeholder-oriented governance system. In its current mixture of incorporated shareholder value practices and an institutionalized stakeholder-oriented rationale, Germany's corporate governance can be considered as a form of an advanced and modern stakeholder value approach.

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