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Corporate Governance Changes and their Implications for Internationalization – Towards an Empirically Grounded Framework

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Abstract :

The aim of this study is to develop a framework for academic discussion about the implications of corporate governance changes on the internationalization of a company. This framework could constitute the basis for the evolution of an empirically grounded theory. A longitudinal case study has been conducted in order to explore significant changes of the internationalization process, which are triggered by shifts in corporate governance. The unit of analysis has been selected due to its high phenomenological relevance: Hoechst, a German company from the "life-sciences" industry, which has recently merged with the French company Rhône-Poulenc to Aventis.

Changes in corporate governance can be classified into four categories: 1) corporate governance changes with no effect on internationalization, 2) corporate governance changes that affect the internationalization process, 3) corporate governance changes that are accompanied by a simultaneous change in the internationalization status of the company, and 4) corporate governance changes that are accompanied by a simultaneous change in the internationalization status and that do affect the internationalization process.

The intensity with which the internationalization process is affected depends on the vehemence with which the power balance between the company's stakeholders has been shifted. Empirical findings show that considering different categories, internationalization should mostly be affected with regard to the geographical allocation of resources and the staffing of top-management positions.

Corporate governance changes that are accompanied by simultaneous changes in the internationalization status of a company are likely to occur in mergers, especially in cross-border-mergers. The intensity of change in the internationalization status before the merger in comparison to after the merger depends on the degree of internationalization that the company had already reached before, on the degree of internationalization of the merging partner as well as on the geographical complementation of the merging companies.

Introduction

Corporate governance is a topic which has recently captured an increasing interest of academic research. It can be described as a process where stakeholders[1] develop specific **interests** concerning the policy of a company and communicate these interests (more or less explicitly) and where the management of the company responds in some way to these stakeholder demands by adopting a certain corporate policy in order to meet their interests. The degree of response that is shown by the management of the company in return for the demands of a certain group of stakeholders is a function of the **power** that this particular group of stakeholders can exert towards the management.

Due to different historical developments, the rules guiding the process of corporate governance have been constructed differently in different nations. Based on these rules, different structures which are relevant for corporate governance have emerged, thus substantiating different national settings (Roe 1994). These international differences in corporate governance have attracted academic interest (e. g. Bishop 1994, Charkham 1994, International Capital Markets Group 1995, Pedersen/Thomsen 1997). Especially the comparison of the fundamentally different systems in Germany and Japan on the one hand, and Great Britain and the United States on the other hand, have been the focus of academic analysis (e. g. Dufey/Hommel-Riemer-Hommel 1998, Kojima 1993, Prowse 1994, Roe 1993).

Nevertheless, these international differences in corporate governance, that have been showing enduring persistence over a long period of time, are likely to vanish. Leading experts in this field predict a growing convergence of national corporate governance systems, which is driven by the increasing globalisation of capital markets. Profound changes have been expected for the German corporate governance system, which should evolve from a stakeholder-oriented system more towards a shareholder-oriented system of American style (Antrecht/Enzweiler 1995, Balzer/Nölting 1997, Juhnke 1995). In fact, during the 90s, several German corporations have shown remarkable changes in their corporate governance.

Although these changes have raised academic attention (e. g. Dufey/Hommel/Riemer-Hommel 1998, Dufey/Hommel 1997, Höpner 2002), their effects on corporate strategies and corporate processes have not been considered adequately. Especially the relationship between the internationalization of a company and its corporate governance has not been examined yet. As Kobrak/Oesterle argue: “Much of the general discussion about corporate governance, however, falls into the field of finance. Unfortunately, financial analysis is focused on the economic and institutional aspects of corporate governance, with less attention to its relationship with business culture, corporate strategies, and the internationalization of business“ (Kobrak/Oesterle 1997, 649). This paper attempts to make a contribution concerning this research gap. The aim of the study is to develop a framework for the academic discussion about the implications of corporate governance changes on the internationalization of a company. This framework will be constructed in order to constitute the basis for the evolution of theory.

I. Research Methodology

The concept of this study is based on a research methodology called "grounded theory". This approach, which can be characterized as "qualitative", represents a scientific methodology for the systematic generating of theory from data and is based on the principle of comparative analysis (Glaser/Strauss 1967, Glaser 1978). For this purpose, a longitudinal study of one firm has been conducted. Subjects of comparison have been corporate governance aspects as well as internationalization aspects during different periods of time.

For the analysis, the authors selected the German company Hoechst. The choice of Hoechst was motivated by its high phenomenological relevance: in the middle of the 90s, a significant change in corporate policy towards shareholder interests could be observed at Hoechst. Furthermore, in 1999, Hoechst merged with the French company Rhône-Poulenc and it thus seems of particular relevance to analyze changes in corporate governance and internationalization following this cross-border merger. In this perspective, it is important to note that the French corporate governance system is considered as an intermediate form of the contrasting German and Anglo-Saxon models (Albert 1991, Mayrhofer 2001, Mertens-Santamaria 1997). A final criterion for selecting Hoechst was the high availability of empirical data through the company's archives.

The total period of analysis considered in this paper stretches from the middle of the 80s until 2002. Prior corporate development will be used as a historical backdrop.

The empirical study conducted by the authors is based on annual reports, speeches of the company's chief executives and other relevant corporate governance actors, interviews with the company's chief executives or other important actors that have been published or that are available in the company's archives, articles from the business press, records of the company's annual shareholders' meetings and, to a minor extent, direct observations at the company's shareholders' meetings.

For the analysis of the empirical material, an interpretative approach has been used. As a first step, micro-units of analysis such as remarks of a CEO were confronted with contrasting interpretations. In a second step, these differing interpretations were sorted out according to their degree of relevance, with the objective of identifying the most conclusive interpretation. In order to strengthen internal validity during this process, multiple sources of evidence have been used (Yin 1989). For example, remarks of corporate governance actors have been evaluated in connection with the analysis of accounting data.

In detail, the research procedure was as follows: First, changes in corporate governance were searched for. These changes were assumed to be indicated by changes in the power balance between the company's stakeholders and/or by changes in corporate policy. Alterations in the power balance were identified through three indicators: changes in shareholder structure, changes in the composition of the supervisory board, changes in the composition of the management board. Alterations in corporate policy were mainly inferred from changes in corporate goals, changes in the map of relevant stakeholders from the perspective of management, and additionally, from changes in the distribution of added value between different stakeholders as well as changes in the information policy of the company.

According to these findings, critical events have been delineated, based on the premise that the higher the number of indicators pointing to change, the more intense the change in corporate governance. During the 90s, two critical events implying a high intensity of change in corporate governance were identified: (1) the (planned) replacement of CEO Wolfgang Hilger by Jürgen Dormann, and (2) the merger between Hoechst and Rhône-Poulenc at the end of 1999. This paper will focus on the consequences of these changes for internationalization. The identification of these critical events is discussed by Eckert (2000).

Changes in internationalization will be classified into four categories and operationalised by the following indicators:

1. Internationalization of sales: changes in this category will be identified through the development of foreign sales, the geographical dispersion of foreign sales, foreign market entry decisions as well as statements and remarks of company executives.

2. Internationalization of resources: information about changes in this category will be delineated from remarks of company executives about strategic decisions concerning

this field and from the development of published company data, such as the ratio of R&D-expenses abroad in relation to the total sum of R&D-expenses, the percentage of sales produced abroad, the amount of taxes (worldwide) in relation to earnings before taxes (worldwide).

3. Internationalization of ownership: information about changes regarding this category will be identified through changes in the company's shareholder structure as well as through changes concerning the company's quotation at foreign stock markets.

4. Internationalization of management: information about changes concerning this category will mainly be delineated from the composition of the management board.

II. Hoechst : Changes of Corporate Governance and Internationalization

Backdrop: Hoechst at the Beginning of the Period of Analysis

Hoechst AG emerged from the split of the German chemical company IG-Farben at the beginning of the 50s as a public corporation. At the beginning of the 70s, the chemical and pharmaceutical conglomerate had already been highly internationalized, its percentage of foreign sales reaching more than 60 percent in 1974. At this time, its foreign operations mainly took the form of exporting activities (only 28 percent of total sales were produced abroad). During the 70s however, Hoechst began to expand its foreign production in order to overcome protectionism in host countries and in order to reduce its dependence on exchange rate variations.

During the 80s, this process of increasing internationalization continued, albeit driven by other forces such as production costs and the need to increase foreign market share in emerging markets abroad in order to realize economies of scale.

Since 1978, the supervisory board of Hoechst consists of 20 members. According to German codetermination laws, ten of them are elected by the employees and ten of them are elected by the shareholders. As in many other large German corporations, the composition of the supervisory board reveals personal interlocks to other German industrial firms and German banks. These interlocks, which are typical for the corporate governance configuration of large German companies and which have persisted throughout a long period of time, tend to be slightly loosened towards the end of the period of analysis[2].

Until the beginning of the 80s, the company's shares were widely held, with no bloc-holder of shares. However, in 1982, the company announced that Kuwait had acquired a minority bloc of 24,5% of the company's shares. One year later, a representative of Kuwait had been elected into the supervisory board. Although since the late 80s, it has been rumored from time to time that Kuwait intended to withdraw from its commitment, its shares as well as its representation at the supervisory board, have been maintained.

The corporate policy that the management of Hoechst was pursuing during the 70s and the beginning of the 80s can be described as a policy of balancing the demands of the company's most relevant stakeholders.

Stage 1: From Stakeholder-Orientation to Management-Orientation

A shift in corporate governance was found to have happened after Wolfgang Hilger replaced the former CEO Rolf Sammet. At the end of the 80s, the corporate policy of balancing the demands of the company's stakeholders turned into a more management-oriented policy.

After the nomination of W. Hilger as CEO, external reporting, which included a lot of details in the annual report in addition to legal requirements during R. Sammet's era, was incrementally reduced. For example, information about the quantity of sales produced abroad – a number that would offer potential for criticism from stakeholder groups such as workers and trade unions – disappeared from the company's annual reports.

Despite an increase of the company's net earnings at the end of the 80s, the ratio of dividends to earnings declined. A growing percentage of the company's earnings remained inside the company. This development was criticized by shareholders, although the amount of dividends per share increased remarkably. As a dividend policy like this tends to raise the amount of free cash flow inside the company, the autonomy of management is likely to be enlarged.

In 1990, a group of institutional investors from Germany, who were holding Hoechst-shares, had been summoned to deposit their shares into a holding company, the «Frankfurter Gesellschaft für Chemiewerte» (FGC). The creation of this corporate holding company implied certain tax advantages, also for investors. However, even more important from the viewpoint of the management of Hoechst, this arrangement offered the advantage of considerably reducing the danger of a hostile takeover (Adams 1994).

In sum, indicators of the power balance as well as indicators of corporate policy suggest that a change has taken place, which has lead to an increase of the management's autonomy, thus allowing a stronger emphasis on the management's interests in corporate policy.

The aim of internationalization strategy during that time can be summarized with "growth on all major markets worldwide". Geographical diversification as well as the percentage of foreign sales were already rather high in 1985 and remained so during the era of W. Hilger. Nonetheless, an emphasis on certain key markets can be identified from the company's international investment strategy as well as from statements of the CEO. The foreign markets, which had been assigned exceptional strategic relevance, were the US and Japanese markets.

Growth in the US-market had been supported in the chemical sector through the acquisition of Celanese, a chemical manufacturer. In the 90s, efforts to strengthen the pharmaceutical arm of Hoechst were undertaken through the acquisition of Copley, a US generics company. Despite high entry barriers, the Japanese market played a key role in the company's strategy at that time. For example, in his report to the annual shareholders' meeting in 1989, W. Hilger states: "Japan is a market with high potential and we want to increase our commitment there"[3]. Entry into this market was achieved through cooperative alliances such as joint ventures.

With regard to the internationalization of inputs, the geographical allocation of production facilities is a critical aspect. On the one hand, empirical evidence is given that for the decision of where to allocate production, cost aspects are not the only criterion. From statements of the CEO and statements in the annual report, it can be concluded that the proximity of product markets has been a necessary as well as important condition for the decision of where to locate manufacturing activities during his era[4].

Another critical input for Hoechst is R&D. As, in the past, Germany did not offer very favorable conditions for the kind of R&D a chemical and pharmaceutical conglomerate is conducting, it does not seem very surprising that this climate has been the target of criticism of Hoechst's leading managers since the late 70s. Especially the field of genetic engineering has been controversial. But despite the pressure of shareholders who were demanding a more determined shift of genetic engineering abroad, W. Hilger resisted.

On the other hand, towards the end of his term, contradictory evidence emerges. In his position as a president of the German association of the chemical industry, W. Hilger argued in July 1992 with regard to genetical engineering: "What about the production? Why should it still be located in Germany? Surely not for reasons of logistics. The annual volume of a pharmaceutical substance, which is genetically produced, ..., can be sent from Japan to Germany by airmail-letter"[5]. And in his last letter to the shareholders in 1994, he wrote: "Increased demands concerning wages, salaries, and welfare contributions as well as exaggerated regulations and increasing red tape are a heavy burden for our German production facilities. Consequently, some of them are not able to compete internationally anymore. Thus, we had to give up a number of plants, producing pigments, components for pigments, components for pesticides, and components for pharmaceuticals. Partly, we are buying these products, partly we will set up plants with modern technology at locations that offer favorable costs like India"[6].

Another objective announced during that era was to internationalize the company's shareholder structure corresponding to the business structure of the company worldwide. In order to support this process, Hoechst-shares were introduced at the Tokyo stock-exchange. However, despite enduring requests from shareholders to quote the company at the New York Stock Exchange (NYSE), the CEO remained hesitating, because of SEC accounting requirements which are much more stringent than accounting regulations in Germany.

Stage 2: From Management-Orientation to Shareholder-Orientation

In 1994, CEO Wolfgang Hilger was replaced by his planned successor Jürgen Dormann. Yet, in contrast to the corporate governance tradition of Hoechst, the retiring CEO had not been proposed at the annual shareholders' meeting to be elected into the supervisory board with the perspective to become its chairman.

Following the replacement of the CEO, a significant turn to a shareholder-oriented corporate policy can be observed. The new CEO J. Dormann strongly emphasizes that the overall goal of the company should be to increase shareholder value. Whereas his predecessors used to argue that the company's shareholders ought to obtain an **adequate** return for their investment, the new CEO stresses that Hoechst should strive to realize an

above-average return for its shareholders[7]. This change in corporate goals is accompanied by a radical re-interpretation of the company's stakeholder map. Shareholders have thus become the most relevant group.

Results of this evolution are found in the company's external reporting, which, soon after the nomination of the new CEO, changed to the more shareholder-oriented International Accounting Standards. The change in the company's policy is also reflected in a radical shift of its business strategy. The new CEO called for a clearer focus of the former conglomerate and was rather determined to divest businesses that did not belong to the defined core business of "life sciences".

In essence, the replacement of the CEO did not coincide with the corresponding expected change in the composition of the supervisory board. This indicates a significant shift in the power balance between internal actors that gave way for a radical re-orientation of corporate policy.

With regard to the internationalization of product markets, no significant changes can be found, when comparing the period of CEO W. Hilger with the one of CEO J. Dormann. Like at the time of his predecessor, the strive for global presence can be felt during J. Dormann's era. Neither the development of the percentage of foreign sales nor the evolution of the geographical dispersion of sales do suggest fundamental modifications with regard to the company's foreign market presence. According to statements of J. Dormann, the company should have a strong position in all markets worldwide, and especially in markets with high growth rates. Therefore, North and Latin America as well as Asia have been considered as key regions in the company's strategy[8].

As a tentative conclusion, it can be hypothesized that a change in corporate governance from management-orientation to shareholder-orientation does not affect the internationalization strategy of the company regarding the geographical selection of product markets. In contrast to the concentration on the core business "life sciences", no concentration on a specific region follows the change in corporate policy. Like before, the strive for global market presence seems to prevail.

Concerning the geographical allocation of the company's inputs, empirical evidence is provided that decisions regarding this issue tend to be more strongly driven by efforts to utilize international market imperfections. These international market imperfections are the consequence of international differences in costs such as differences in taxes, wages or environmental expenses as well as the consequence of different national regulations concerning the company's activities in a specific country, e. g. with regard to R&D in the sector of genetic engineering.

Reflecting the strategy of Hoechst regarding R&D location decisions before his era, J. Dormann states in a number of interviews that these decisions have been driven too much by patriotism[9], thus indicating that in the future they will more exclusively be driven by economic concerns. In one interview, he argues: "In Germany, the realization of research-results in genetics is still confronted with difficulties. Here, we have to drill with an air-hammer through walls, which are two meters thick, in Strasbourg we only have to drill through a wall as thin as plywood and in the USA it is even thinner – we are patriots, but we have a task to fulfill"[10]. Given the corporate policy proclaimed by J. Dormann, it is not difficult to guess what is meant by the "task to fulfill": to increase shareholder value. Thus, a causal chain between corporate policy and the internationalization of the company can be constructed. J. Dormann admits, at least implicitly, that a conflict of interests exists between the company's shareholders and certain other stakeholder groups from the home country, e. g. the government[11].

In order to further validate these considerations, the analysis additionally relied on the development of quantitative data from the company's annual reports. As indicators for the company's strategy, the relation of taxes to net earnings as well as the relative amount of R&D-expenses at home have been used.

Increasing attempts to utilize international market imperfections should be reflected in a declining percentage of the sum of tax expenses in relation to the company's worldwide net earnings (global tax ratio). The average global tax ratio during the period of CEO J. Hilger is more than eight percent higher than the one of his successor J. Dormann (49% in comparison to 40.8%). And even if the year 1998 is dropped from the analysis - due to the extreme low value of the global tax ratio in 1998 -, the difference in the average tax ratios of W. Hilger and J. Dormann still amounts to 5.5 percent.

Another quantitative indicator that could provide empirical information about the internationalization strategy regarding the company's inputs might be the geographical distribution of R&D-expenses between Germany and abroad. As mentioned before, the climate for R&D in Germany has been a point of criticism for chief executives of Hoechst for decades. A closer look at the development of the indicator "R&D-expenses in Germany to total R&D-expenses worldwide" over time underlines the observation that had been delineated from the CEO's statements before: whereas in the era of CEO W. Hilger, the ratio of home country R&D-expenses to total R&D-expenses was reduced by about twelve percent during a nine-year-period, in the era of J. Dormann, the ratio of domestic R&D-expenses to total R&D-expenses drops by nine percent within a three-year period, thus suggesting a much stronger willingness to shift R&D abroad in order to utilize international market differences[12].

The internationalization of the company's shareholder structure has also been pursued in a more determined way than before. Whilst the overall objective to reach a shareholder structure that reflects the global business structure of the company still prevailed, the achievement of that aim was followed more consequently. Despite the stringent accounting requirements of the SEC, it was finally decided to quote Hoechst at the New York Stock Exchange (NYSE).

Moreover, in contrast to the era of his predecessors, the internationalization of top management was initiated by J. Dormann. Soon after his nomination, for the first time in the company's history, foreigners were appointed as members of the management board of Hoechst. And the selection of these new members of the management board appears to correspond to the company's key product markets. In January 1995, Ernest Drew, an American citizen, is the first foreigner on the management board of Hoechst and one year later, Claudio Sonder, a Brazilian citizen, also becomes member of the management board. This highlights the importance of American markets for the company's internationalization strategy. The weight of Asia is reflected by the appointment of Horst Waesche who had been a long-term expatriate in the Far East.

At the hierarchical level below the management board, staffing decisions also followed a more geocentric-oriented strategy (Heenan/Perlmutter 1979). For example, after integrating the pharmaceutical sector of Hoechst with the French pharmaceutical company Roussel Uclaf and the US pharmaceutical company Marion Merrel Dow, the staffing of top positions for the merged subsidiary Hoechst Marion Roussel (HMR) has been conducted without regard to the origin and nationality of candidates, leading to frustration of and criticsm from managers from the acquiring company Hoechst (Anonymus 1997, p. 16, Enzweiler 1997, p. 50).

In essence, a transformation in the corporate governance of Hoechst has taken place. Corporate policy has changed from management-orientation to shareholder-orientation. Alterations of the internationalization process of Hoechst, which followed this shift in corporate policy, have been identified.

Empirical evidence is provided that the shift towards shareholder-orientation is accompanied with a stronger focus on economic considerations regarding the geographical allocation of inputs. Furthermore, decisions regarding the staffing of top-management are increasingly driven by aspects of professional qualification without regard to origin and nationality.

Progress regarding the internationalization of shareholder structure can be observed. However, this evolution is not very surprising, given that a change in corporate policy towards shareholder-orientation facilitates the company's entry into foreign capital markets and that a broader geographical dispersion of the company's shares should also be in the interest of management (Engelhard/Eckert 1999).

Yet, no significant effect has been found with regard to the product market strategy of the company. Obviously, this part of corporate strategy seems - at least up to then - to represent a field of consensus between the company's most relevant stakeholders.

Towards another Corporate Governance-Transition? - The Implications of a Cross-Border Merger

Step 1: Merging the Companies

In December 1998, J. Dormann, CEO of Hoechst, and Jean-René Fourtou, CEO of the French company Rhône-Poulenc, announced the merger of their companies to Aventis. Even if the project "Aventis" had to undergo several modifications due to the pressure of shareholders, it was finally approved by the relevant corporate governance bodies. The new company Aventis was formed in December 1999. As a merger can be classified as a phenomenon where a multitude of crucial changes concerning power relations take place simultaneously, it is of particular interest for the analysis of changes in corporate governance.

In the case of Aventis, Hoechst and Rhône-Poulenc agreed upon a "merger of equals". This means that the emerging shareholder structure results from the weighted combination of the shareholder structure of the two merging companies, where each of them has (approximately) the same weight[13]. As the shareholder structure of Rhône-Poulenc was more fragmented than the shareholder structure of Hoechst, from the perspective of Hoechst, the merger has lead to an increase of the fragmentation of shareholder structure.

It was decided to locate the headquarters of Aventis in Strasbourg. Consequently, the composition of the supervisory board is no longer subject to German codetermination laws. At the beginning, employees were thus not represented at the supervisory board of the newly established company.

As indicated by table 1, the supervisory board immediately after the merger consisted of ten members, five of whom represent the former supervisory board of Hoechst and five the former supervisory board of Rhône-Poulenc. The composition of the supervisory board of Aventis differed significantly from the supervisory board of Hoechst: even the personal interlock with Dresdner Bank, which had been represented at the supervisory board of Hoechst since the company originated from the roots of IG-Farben after the second world war, was ceased.

Table 1: The Supervisory Board of Aventis in 1999

Marc Viénot (Rhône-Poulenc):	Chairman of the Supervisory Board Aventis
Martin Frühauf (Hoechst):	Vice Chairman of the Supervisory Board Aventis
Jean-Marc Bruel (Rhône-Poulenc):	
Serge Kampf (Rhône-Poulenc):	CEO of Cap Gemini
Hubert Markl (Hoechst):	President of Max-Planck-Gesellschaft
Günter Metz (Hoechst):	
Didier Pineau-Valencienne (Rhône-Poulenc):	Administrator Schneider S. A.
Seham Razzouqi (Hoechst):	Member of the Board of Kuwait Petroleum Corporation
Michel Renault (Rhône-Poulenc):	Chairman of Supervisory Board of D.M.C. and B.F.G. Bank
Hans-Jürgen Schinzler (Hoechst):	CEO of Münchner Rückversicherungs-Gesellschaft

Source : Rhône-Poulenc (1999), prospectus for admission at stock exchange.

Since Aventis was formed as a “merger of equals”, top-management positions have been equally distributed among the merging partners (see table 2). J. Dormann, the former CEO of Hoechst, was nominated chairman and Jean-René Fourtou, the former CEO of Rhône-Poulenc, was nominated vice-chairman of the management board. Although J. Dormann has become CEO of Aventis, differences between the composition of the management board of Aventis as compared to the management board of Hoechst appear to be quite substantial.

Table 2: The Management Board of Aventis in 1999

Jürgen Dormann (Hoechst):	Chairman of the Management Board
Jean-René Fourtou (Rhône-Poulenc):	Vice Chairman of the Management Board
Igor Landau (Rhône-Poulenc):	Member of the Management Board
Horst Waesche (Hoechst):	Member of the Management Board

Source : Rhône-Poulenc (1999), prospectus for admission at stock exchange.

Furthermore, it should be noted that the newly established company had a higher market capitalization than Hoechst had before. Thus, the danger of a hostile stakebuilding or a hostile takeover is remarkably reduced.

To sum up, immediate changes regarding the power-positions of actors following the merger are significant, so that the potential for a change in corporate policy is given. Certain effects of the merger, especially the fragmentation of ownership and the increasing market capitalization, are likely to increase the autonomy of management, because they reduce the pressure on management to promote an aggressive shareholder value orientation and allow to modify the corporate policy.

In addition to these changes in corporate governance, a merger frequently leads to immediate changes in regard to the degree of internationalization, from the viewpoint of at least one of the merging companies.

On the side of product markets, the newly created company has a geographical spread, which results from the combination of the geographical spread of the two merging companies. Geographical complementation of product markets is therefore considered as a critical aspect for the evaluation of a merger. In the case of Aventis, analysts evaluated the planned merger rather critically due to the unsatisfactory complementation of the geographical spread of the two merging companies Hoechst and Rhône-Poulenc. Especially the unsatisfactory market share of both companies in the U.S. market had been a point of criticism for analysts and shareholders alike (Bernhard 1998, p. 2).

Depending on the geographical dispersion of resources of the merging companies, a merger of internationalized companies may lead to geographical “overlaps”, especially with regard to production. Consequently, potential for restructuring and rationalization is provided at an international level and opportunities to realize economies of scale are offered. But these potentials for restructuring also imply conflicts of interests with stakeholder groups like employees or governments. In the case of Aventis, especially French trade unions were opposed to the planned merger because of fears that factories might be closed in France (Anonymus 1999, p. 13).

Furthermore, a merger of international companies is expected to increase the degree of internationalization concerning shareholder structure, especially if the two companies have been mainly held by shareholders from their home countries. However, in the case of Hoechst, about 50 percent of equity was held abroad and in the case of Rhône-Poulenc, the majority of shareholders had been from abroad, so that the merger itself did not induce such a significant increase in the level of internationalization regarding the shareholder structure of the new company as compared to the shareholder structure the two merging companies had before (see tables 3 to 5).

Table 3: Ownership Structure of Rhône-Poulenc in 1998

Type of owner	Ownership share (in percent)
Private investors	17.7
among them: employees	3.3
Institutional investors from France	27.8
Institutional investors from rest of the world	54.5

Source: Rhône-Poulenc, annual report 1998.

Table 4: Ownership Structure of Hoechst in 1998

Type of owner	Ownership share (in percent)
Kuwait Petroleum Corporation	24.5
Institutional investors from Germany	13.1
Investors from North America	13.0
Frankfurter Gesellschaft für Chemiewerte	10.2
Great Britain, Ireland	6.1
Employees	6.0
Investors form Continental Europe	3.9
Others (mainly private investors from Germany)	22.4
Rest of the world	0.8

Source: Hoechst, annual report 1998.

Table 5: Ownership Structure of Aventis in 2000

Type of owner	Ownership share (in percent)
Kuwait Petroleum Corporation	13.7
Investors from North America	19.8
Investors from France	18.6
Investors from Germany	12.6
Investors from Great Britain & Ireland	11.6
Investors from the rest of Europe	11.3
Rest of the world	2.5
Employees	3.7
Unidentified	6.2

Source: Aventis, annual report 2000.

Concerning the internationalization level of top-management, it is important to note that, when the top-management of the merging companies is mainly composed of home-country nationals, a cross-border-merger generally leads to an increased internationalization of the top-management of the newly emerging company.

Yet, the management board of Hoechst had already reached some degree of internationalization before the merger. Claudio Sonder, a Brazilian, was one out of five members of the management board who did not have German nationality. Therefore, the change in top-management following the merger can not be evaluated as a substantial increase in the internationalization level.

Step 2: Important Corporate Governance Changes after the Merger and the Development of the Internationalization of the Company

Besides these immediate effects, indirect effects are likely to arise, for the merger initiates changes in the power relations between the company's stakeholders, which should imply a shift in corporate policy accompanied by the corresponding implications for the internationalization process of the company.

Based on the analysis of changes in the distribution of power between relevant actors, a slight reduction in shareholder orientation was hypothesized.

Yet, the findings are unclear. On the one hand, statements found in the empirical material seem to indicate that shareholder orientation remains as strong as before the merger. In the annual report, one can find the following statement: "Aventis is committed to creating value for shareholders. We want to achieve a long-term increase in our share price and outperform the relevant market indexes, as we did in 2001" (Aventis, annual report 2001, p. 53).

On the other hand, indications can be found which seem to confirm a slight reduction in shareholder orientation. For example, concerning the composition of the supervisory board - despite a lack of legal requirements regarding workers' participation, four employee representatives have been proposed and elected to join the supervisory board.

Following the spin-off of the agrochemical business and the concentration on pharmaceutical activities, two top management levels (the top management of Aventis S.A. and the top management of Aventis Pharma) had to be merged. The outcome seems to be a management board where positions are equally distributed between American, French and German managers.

Concerning the consequences for the degree of internationalization of management, the management board of Aventis thus reflects the national roots of its origin, for it consists of two German, two US and three French managers.

The effects of the merger on the internationalization of top-management are therefore not easy to assess. Moreover, at the hierarchical level below the management board, the internationalization of management had already been advanced at Hoechst, so that on the whole the merger between Hoechst and Rhône-Poulenc did not really lead to substantial changes in regard to the internationalization of top-management.

With regard to the staffing of top-management, which had also reached a relatively high level of internationalization, the geocentrism underlying these decisions at Hoechst during the period before the merger has been weakened in favor of a multi-ethnocentrism (French, German, U.S.). This is due to the fact that in the new company, coalitions of insiders from the merging companies have been struggling for power. In order to satisfy their conflicting demands for power, the quotal solution seems to guarantee "internal peace" inside the company (Holtbrügge 2002, p. 19).

Conflicting indications concerning corporate policy can also be found, when analyzing the development of the geographical allocation of inputs. On the one hand, decisions concerning this issue seem to be more influenced by non-economic forces such as political and social aspects than before the merger. For instance, after having failed to find a buyer for its R&D activities based in Romainville, the company decided to integrate this location within its global R&D activities.

Nevertheless, on the other hand considerable restructuring activities underline the company's strive for global efficiency. According to the company, the number of locations worldwide will be cut by half until the end of 2002 (Aventis press release, http://www.aventis.com/main/0,1003,EN-XX-31686-26020--,FF.html)

Regarding efforts to internationalize the shareholder structure, no fundamental changes have taken place. This is due to the fact that the internationalization of shareholder structure had already reached a high level before the merger as well as through the merger (see table 6).

Table 6: Ownership Structure of Aventis in 2001

Type of owner	share of ownership (in percent)
Investors from France	21.1
Investors from USA/Canada	19.9
Investors from UK & Ireland	13.2
Investors from Germany	10.8
Investors from the rest of Europe	12.3
Rest of the world	1.8
Employees	3.4
Kuwait Petroleum Corporation	13.6
Held by Aventis	0.2
Unidentified	3.7

Source: Aventis, annual report 2001.

One can thus conclude that, from the perspective of Hoechst, the merger did not lead to a substantial increase of the level of internationalization.

Conclusion

By conducting a one-company longitudinal study, implications of corporate governance changes for internationalization have been explored. Based on these empirical insights, a first framework can be constructed, which focuses on the effects of corporate governance changes on the internationalization status and the internationalization process of a firm. Different corporate governance changes from the history of Hoechst can be classified into these constellations.

1. Corporate governance changes that have no effect on the internationalization of a company at all.

2. Corporate governance changes that affect the internationalization process of a company. This happens when the shift in the power balance is intense enough to generate a corresponding shift in corporate policy.

In the specific case, the implications of a shift from a management-oriented corporate policy towards a more shareholder-oriented policy have been examined.

No significant effect can be found for the company's international product market strategy. This could be interpreted in a way that the international product market strategy is a field, where – at least up to now - consensus exits between the most relevant stakeholder groups of the company.

Conversely, as far as the geographical allocation of the company's inputs is concerned, implications of a shift towards a shareholder-oriented corporate policy can be found. International input allocation is more dominated by the imperative to utilize international market differences. The internationalization of shareholder structure progresses and staffing of top-management becomes more geocentric.

In essence, the shift in the corporate governance of Hoechst towards a shareholder-oriented corporate policy promotes its internationalization. It drives for **global presence** on the side of product markets as well as for **global efficiency** on the input side. With regard to the shareholder structure, **geographical dispersion** is pursued and concerning top-management a **geocentric** strategy is used.

3. Corporate governance changes that are accompanied by a change in the internationalization status of the company.

From the viewpoint of the company that is going through this particular change in corporate governance, the degree of internationalization before the change is crucial for assessing the leap in internationalization accompanied by the change in corporate governance.

In the case of a merger, the intensity of change regarding this aspect depends on the degree of geographical complementation between the merging companies concerning product and input markets as well as shareholder structure.

With regard to the internationalization of top-management, the distribution of power between merging companies is a crucial determinant for the composition of the management board of the emergent company and hence for its structure regarding the origin of the individual members.

4. Corporate governance changes in the case of mergers that affect the internationalization process of a company and which are accompanied by a change in the internationalization status of the company.

The empirical insights gained from the case study should be used in order to develop a framework for the relationship between corporate governance and internationalization that includes tentative hypotheses, which need further (internal as well as external) validation. A task of further empirical analysis should be to fill the still existing gaps with empirical evidence from other companies in order to reach theoretical saturation.

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1 The term „stakeholder" shall be defined here as embracing the whole spectrum of actors interested in or affected by actions of a company, including shareholders, management and others actors.

2 In 1998, the personal interlocks to Commerzbank as well as to Mannesmann, which - up to then - had been persisting at the supervisory board of Hoechst throughout the period of analysis, were dissolved.

3 Taken from the Chief Executive's report to the annual shareholder's meeting of Hoechst AG, June, 6th 1989, translated from German by the authors, source: Hoechst-archives.

4 For example, product market proximity was mentioned as a critical contribution to success in the company's annual report for the year 1988, p. 3. In a published interview W. Hilger argues: „For every investment that is done here, we have to consider the economic framework as well as the market potential. It makes no sense to shift production to locations where you get nearly everything for free, but where there is no one to buy your products" [Interview with CEO W. Hilger in *Frankfurter Allgemeine Sonntagszeitung*, April 25th 1993, p. 16, translated from German by the authors]. And, at the annual shareholders' meeting in 1990 he declared: „We always invest, where the markets are" [Record of the annual shareholders' meeting of Hoechst AG, June 12th 1990, source: Hoechst-archives].

5 Speech of Prof. Dr. Wolfgang Hilger, president of the association of the chemical industry, to the press, Bonn, July, 3rd 1992, taken from: *Chemie-Nachrichten*, translated from German by the authors, source: Hoechst-archives.

6 Annual report of Hoechst AG for the year 1993, p. 3, translated from German by the authors.

7 These goals are stated in the respective annual reports of the company. E. g. annual report of Hoechst AG for the year 1993, p. 10 and annual report of Hoechst AG for the year 1997, p. 7.

8 In an interview, J. Dormann states: „We are growing in the right markets, in those markets that develop, in Asia, in Latin America, in North America of course, and we will undertake investments and thus create new jobs" [Verbal transscript of an interview of CEO J. Dormann with Reuters, April 29th 1994, translated from German by the authors, source: Hoechst-archives].

9 Interview with CEO J. Dormann, published in: *Der Spiegel*, June, 6th 1994, p. 103, interview with CEO J. Dormann, published in: *Die Zeit*, July 22nd 1994, source: Hoechst-archives, verbal transscript of an interview of CEO J. Dormann with Reuters, April 29th 1994, source: Hoechst-archives.

10 Interview with CEO J. Dormann, published in: *Süddeutsche Zeitung*, November 16th 1994, p. 24, translated from German by the authors.

11 In later interviews the CEO tries to deny that conflict. Instead, he changes his rhetorics and then - with regard to shareholder-value - talks of "associations of fate" between shareholders, management, and employees, cf. statements of CEO J. Dormann concerning certain catchwords, published in: *Capital*, 35(9): 44.

[12] Since the fourth year of J. Dormann's term, the geographical distribution of R&D-expenses between the home country and abroad has not been published anymore.

[13] Although initially the relation of ownership shares of Aventis had been fixed to 50:50 between Hoechst and Rhône-Poulenc, this has been corrected due to intervention of Hoechst's shareholder Kuwait to 53:47 in favour of Hoechst-shareholders.

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