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REVIEWS

Informal institutions, shareholder coalitions, and principal–principal conflicts

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Abstract How do informal institutions affect conflicts between controlling and minority shareholders, also known as principal–principal (PP) conflicts? The dominant formal institution-based view of corporate governance suggests that legal rules and regulations are crucial for the protection of shareholder rights. While this perspective has significantly advances our understanding of international corporate governance, we suggest that more attention to informal institutions may complement the formal approach. First, we utilize social identity theory to shed light on the formation of shareholder coalitions. Second, we draw on research involving informal institutions such as culture and trust to better understand PP conflicts. Overall, we extend the growing literature on PP conflicts by an explicit focus on informal institutions.

Keywords Informal institutions · Culture · Principal–principal conflicts · Shareholder coalitions · Social identity theory

An institution-based view of corporate governance has recently emerged in the literature (Jiang & Peng, 2011a, b; La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1997, 1998, 2000; Peng & Jiang, 2010). The basic proposition is that "institutions matter," which is consistent with a long line of corporate governance research that has emphasized the importance of the formal institutional environment for the protection of investor rights (La Porta et al., 1998, 2000). A common element in these studies is the focus on the

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formal character of the institutional environment, namely the protection by the "law on the books." However, the *informal* aspects of the institutional framework are often not explicitly considered. This is surprising, given the consensus among leading institutional theorists that institutions, as "rules of the game," consist of both formal and informal institutions (North, 1990; Scott, 2007) and that both types of institutions affect corporate governance (Peng, Sun, Pinkham, & Chen, 2009).

A new generation of corporate governance research may benefit from an explicit consideration of informal institutions. Informal institutions are socially shared rules (usually unwritten) that are created, communicated, and enforced outside of the coercive power of the state (Estrin & Prevezer, 2011; Helmke & Levitsky, 2004; North, 1990). While research grounded in the formal institution-based view of corporate governance has produced many insightful contributions, more attention to informal institutions seems warranted for at least three reasons. First, violations of shareholder rights are typically secretive (Dyck & Zingales, 2004). The secretive and often illegal nature make formal enforcement difficult (La Porta et al., 2000), thus highlighting the importance of informal institutions. Second, minority shareholders often free-ride in the hope that other shareholders will do the monitoring. However, engaging in expensive litigation against a controlling shareholder is costly. Thus, informal institutions and their self-enforcing character may be a viable governance option. Finally, recent corporate governance studies emphasize the signaling value of compliance with institutional norms. Therefore, firms may not only benefit from compliance with formal rules (Renders & Gaeremynck, 2012), but also informal ones (Coffee, 2001; Estrin & Prevezer, 2011).

Informal institutions gain importance once formal institutions are absent or weak (Peng et al., 2009: 68). Therefore, a focus on informal institutions may be most relevant in emerging economies with relatively underdeveloped formal institutions for shareholder rights protection (Globerman, Peng, & Shapiro, 2011; Peng, Wang, & Jiang, 2008). In many emerging economies, controlling firm ownership results in a special form of agency conflicts, also known as principal–principal (PP) conflicts (Claessens, Djankov, & Lang, 2000; Dharwadkar, George, & Brandes, 2000; Young, Peng, Ahlstrom, Bruton, & Jiang, 2008). The key theoretical perspective to address PP conflicts is the institution-based view of corporate governance (Peng & Sauerwald, 2012; Young et al., 2008). Previous studies have extensively researched the effects of formal legal protection (La Porta et al., 1998), but lacked sufficient attention to informal institutional safeguards of shareholder rights. Therefore, we address the following underexplored question: How do informal institutions affect PP conflicts?

Overall, our article makes three contributions by taking a closer look at the informal institutions that lead to coordinated actions among shareholders (shareholder coalitions) and influence the propensity to engage in PP conflicts. First, we build on social identity research and discuss some factors that facilitate the emergence of a controlling shareholder coalition. Understanding when and why shareholders identify with certain groups is an important step to understand the driving forces behind PP conflicts. Second, the institution-based view informs classic theories of corporate governance (such as agency theory) by highlighting the dependence on institutions (Aguilera, Filatotchev, Gospel, & Jackson, 2008; Peng et al., 2008). Extending this work, we will show how two crucial informal institutional components—culture and trust—affect PP conflicts. Third, we focus our attention on a specific corporate governance issue—PP conflicts—that recently received more attention in the literature, but more work needs to be done to provide guidance for investors in countries with concentrated firm ownership (Filatotchev, Jackson, & Nakajima, 2012; Luo & Chung, 2012; Su & Lee, 2012).

Principal–principal conflicts

Agency costs can arise from principal–agent (PA) conflicts (Fama & Jensen, 1983) and principal–principal (PP) conflicts (Young et al., 2008). In order to identify, in a general way, the distinctive features of PP conflicts, it is useful to understand the defining features of agency theory as the dominant theoretical perspective informing corporate governance research today (Daily, Dalton, & Cannella, 2003). Agency theory highlights the conflicts of interest between shareholders and managers—in theoretical terms, PA conflicts (Eisenhardt, 1989; Shleifer & Vishny, 1997). Agency theory assumes that shareholders are dispersed, meaning that no single shareholder has sufficient ownership rights to control the firm. Therefore, managers without sufficient shareholder oversight may end up having de facto control and engage in self-interested activities (Fama & Jensen, 1983; Jensen & Meckling, 1976). According to agency theory, ownership concentration is considered a solution to PA conflicts. While this solution may be a viable governance option in the United States with its generally well developed formal institutional system (La Porta et al., 1997), concentrated ownership may lead to conflicts between controlling and minority shareholders—also known as PP conflicts—in countries with weak formal protection of shareholder rights (Globerman et al., 2011; Wu, Xu, & Phan, 2011; Young et al., 2008). PP conflicts will emerge when two assumptions are met: (1) a controlling shareholder is present and (2) the formal institutional framework as external governance mechanism is relatively ineffective in protecting minority shareholder rights (Peng & Sauerwald, 2012; Young et al., 2008).

First, it is well-established that firm ownership in many parts of the world is highly concentrated (La Porta, Lopez-de-Silanes, & Shleifer, 1999). For instance, companies with dispersed ownership are the exception rather than the rule in many countries. In the emerging economies of East Asia, concentrated ownership is particularly pronounced, with more than two-thirds of companies having a controlling shareholder (Claessens et al., 2000).[1] Similarly, many European companies have controlling shareholders (Faccio & Lang, 2002). In both East Asia and Europe, controlling shareholders are able to extract private benefits of control, defined as tangible and intangible benefits from firm control that are not shared with other shareholders, although to a varying extent (Dyck & Zingales, 2004).

Second, PP conflicts are most likely to occur when the costs/benefits of such behavior are favorable (Renders & Gaeremynck, 2012). Costs associated with PP conflicts are influenced through institutional conditions, but financial instruments such as dual-class shares (Nenova, 2003), pyramiding (Morck, Wolfenzon, & Yeung,

[1] For simplicity of exposition, we refer to “controlling shareholder(s)” as the shareholder or group of shareholders that has sufficient voting rights to enact corporate changes at the highest level (e.g., appoint directors to the board).

2005), and tunneling (Luo, Wan, & Cai, 2012) may also make PP conflicts more attractive (Young et al., 2008). These financial instruments may reduce the incentives to use control rights in the best interest of the company (Faccio & Lang, 2002).

While concentrated ownership is a precondition for PP conflicts to emerge, the institutional environment consisting of formal and informal institutions plays a major role (Chen, Li, & Shapiro, 2011; Young et al., 2008). Given that shareholders as principals of the company are primarily responsible for *internal* governance mechanisms such as an effective board of directors, minority shareholders naturally are more dependent on effective *external* governance mechanisms such as an effective legal system (La Porta et al., 1997) or informal norms (Coffee, 2001) once a controlling shareholder can influence internal governance. The interests of minority (non-controlling) shareholders are especially at risk in countries with weak formalized external shareholder protection combined with concentrated ownership (Chen & Young, 2010; Young et al., 2008). Many emerging economies show these conditions, which increases the risk of conflicts among shareholders (Peng et al., 2008).

The argument that institutions play a major role in shaping social and economic outcomes is hardly novel or controversial, but the debate on how institutions matter is far from being resolved (Peng et al., 2008). The most influential perspective on investor protection to date is the *formal* institution-based approach (La Porta et al., 1999, 1998; Peng & Jiang, 2010), which proposes that shareholder protection is dependent on the institutional environment—or more specifically on the formal protection by corporate law and effective law enforcement. For instance, basic regulation that aligns voting rights with cash flow rights is an important external governance mechanism used to protect shareholder rights. According to the formal institution-based view, the legal origin of a country plays an important role in the formation of legal institutions, and these formal institutions influence economic outcomes (La Porta et al., 1998). The formal institution-based approach puts legal systems at the center stage of the discussion about the effectiveness of corporate governance practices and proposes that "legal systems matter for corporate governance and that firms have to adapt to the limitations of the legal systems that they operate in" (La Porta et al., 1998: 1117).

The formal institution-based approach to corporate governance has been criticized for leaving out important *informal* (Table 1) determinants of the institutional framework (Coffee, 2001). Therefore, it is not sufficient to only look at the "law on the books" in order to understand international corporate governance issues. The notion that legal traditions such as common law and civil law are deeply influenced by history points to the importance of informal institutions (La Porta, Lopez-de-Silanes, & Shleifer, 2008). For instance, Stulz and Williamson (2003) found that a country's principal religion (a type of informal institution) determines formal institutions for investor protection. Hence, simply transplanting formal institutions into another cultural setting typically results in weak formal institutions and increase the importance of informal institutions such as culture as substitute for formal institutions (Helmke & Levitsky, 2004).

Informal institutions influence the diffusion and effectiveness of corporate governance practices and underpin how formal institutions work (Helmke & Levitsky, 2004; Williamson, 2000). Because of the existence of informal institutions, "the same formal rules and/or constitutions imposed on different societies produce different outcomes" (North, 1990: 36). Given the international efforts to transplant legal

Table 1 Formal versus informal approaches to principal–principal conflicts.

Criteria	Formal approach to PP conflicts	Informal approach to PP conflicts
Origins of institutions	Legal tradition.	Cultural tradition and organizational practices.
Behavioral constraints	Formal rules in place; sometimes referred to as the "law on the books."	Actual rules that are being followed.
Enforcement mechanisms	State enforcement as independent third party (e.g., through court system).	Self-enforcement through internalized values and norms.
Major issues in practice	Laws and regulations cannot easily be transplanted in other contexts. Demand for particular law may be low on the side of users (businesses) and intermediaries (judges).	Organizational culture is not equal to national culture; therefore, different values and practices in individual corporations make generalizable statements more difficult.
Major issues in research	Only certain agency problems (e.g., stealing) can be addressed through laws and third-party enforcement. Other agency problems (e.g., shirking) call for more attention to non-legal institutions.	Descriptive terms (such as Asian culture) are less suitable for quantitative work.

systems into different national contexts, we need to explore how corporate governance effectiveness is influenced by the informal rules of the game (Estrin & Prevezer, 2011; Stulz & Williamson, 2003). Moreover, research that fails to consider informal institutions may risk missing the primary drivers of most human behavior (Helmke & Levitsky, 2004). However, as North pointed out, "it is much easier to describe and be precise about the formal rules […] than to describe and be precise about the informal ways by which human beings have structured human interaction" (1990: 36). Hence, the lack of attention to informal institutions may be related to these conceptual and empirical difficulties. Although the influence of informal institutions such as culture on economic behavior is controversial (Singh, 2007), better techniques and more reliable data may make it possible to develop testable hypotheses that "substantially enrich our understanding of economic phenomena" (Guiso, Sapienza, & Zingales, 2006: 23).

Informal institutions and principal–principal conflicts

While organizations provide formal communication channels for decision making, more informal group decisions (such as the decision to engage in PP conflicts) require a dedicated social infrastructure to be effective (Davis & Thompson, 1994). One way to create this social infrastructure is the recognition of a shared group identity that facilitates the adherence of group members to shared group norms and goals (Tajfel & Turner, 1986). Since shareholders are often constrained in their ability to use formal communication and governance mechanisms (Black, 1990; Davis & Thompson, 1994), the collaboration among shareholders may be particularly dependent on a social infrastructure built around an informal group identity.

As pointed out earlier, one of the core assumptions of PP conflicts is concentrated ownership. The literature typically defines the concept of controlling shareholder in terms of voting rights (La Porta et al., 1999), meaning a controlling shareholder is a shareholder or group of shareholders that holds enough voting rights to influence corporate policy and appoint members to the board of directors. Most scholars and policy makers choose arbitrary ownership levels to define controlling shareholders. For instance, La Porta et al. (1999) defined a controlling shareholder at a level of 20 % direct and indirect voting rights—a cutoff that typically allows for quasi-control of the company. However, it is possible that multiple minority shareholders collaborate in order to influence corporate policy through establishing a shareholder coalition (Bennedsen & Wolfenzon, 2000; Zwiebel, 1995).

Researchers traditionally focus on shareholder coalitions that emerge between capital market participants such as institutional investors (Crespi & Renneboog, 2010; Davis & Thompson, 1994). However, focusing exclusively on these shareholder types would leave out important micro arrangements. For instance, many corporations are controlled by families and managers of these family-controlled firms are often relatives of the controlling shareholder's family (Claessens et al., 2000; Liu, Yang, & Zhang, 2012). Family control structures can become quite elaborate, with family conflicts and different subgroups within the family questioning the often proposed picture that families vote their ownership stake collectively. Hence, an appropriate social infrastructure may also be necessary to arrive at collective decisions (e.g., engaging in PP conflicts).

Informal arrangements may be necessary when several family members own shares of the company. The law and finance tradition typically assumes that a family votes their shares collectively (La Porta et al., 1999: 476). The inner workings of the family and the strength of their social identity are not explicitly considered. Hence, events such as intra-family conflicts, interpersonal disliking, or the death of important family members are ignored. However, these and other events can affect the strength of the shareholder coalition and their ability to act collectively. Attention to the multiple roles that family firm shareholders play and how they collectively decide on company matters may therefore benefit from closer attention (Chung, 2012; Filatotchev, Zhang, & Piesse, 2011).

The capacity to act collectively in the case of family control and market interactions (i.e., institutional investors) depends on the group formation process, and a strong group identity is an important piece in providing the social infrastructure for collective action (Davis & Thompson, 1994). Therefore, it is important to understand the informal institutions that facilitate the emergence of a shareholder coalition. Cognitive groups such as a shareholder coalition emerge as shareholders partition their environment. The informal institutions that facilitate the group formation process among shareholders are explicated by social identity theory (Tajfel & Turner, 1986) and discussed next (see Figure 1).

Shareholder coalitions

Social identity theory is primarily concerned with (1) the socio-psychological factors of group formation and (2) the sociological aspects of intergroup behavior (Tajfel &

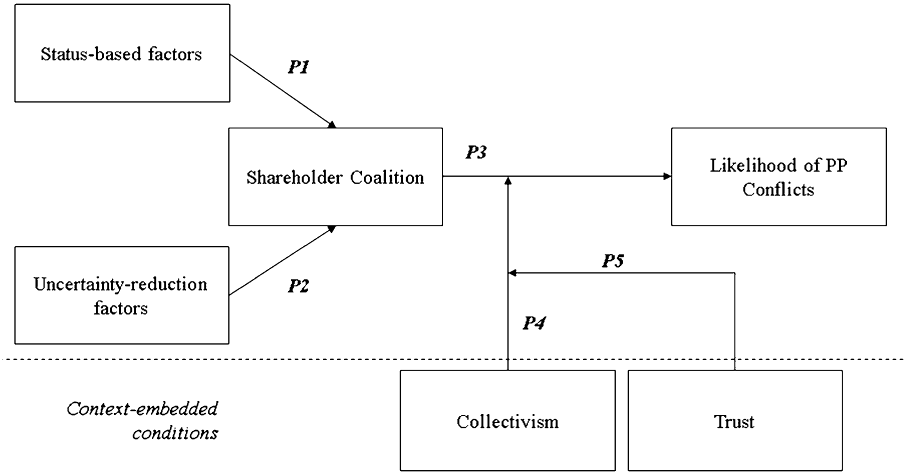

Figure 1 Conceptual model

Turner, 1986). As such, social identity theory is uniquely positioned to understand the emergence of a social infrastructure that is a prerequisite for PP conflicts (Davis & Thompson, 1994). Identification with a social referent—defined as a social actor's conception of "who I am"–influences individual and group behavior (Ashforth, Harrison, & Corley, 2008; Ashforth & Mael, 1989). Identities reside within a social actor and point to a referent in the social world. For instance, an individual may identify with a social role (Stryker & Burke, 2000), group (Tajfel, 1982), or organization (Albert & Whetten, 1985; Pratt & Foreman, 2000). Social identity shapes behavior in a given context and assumes that social referents such as "roles" or "categories" are readily available to be chosen by the relevant social actor when certain conditions are met (e.g., the category becomes salient) (Ashforth, 2001). Actors who identify with a social category consequently behave as part of this group and adopt the group's shared norms and values (Tajfel, 1982).

Established formal groups (e.g., shareholder associations) or informal groups (e.g., family) provide accessible categories that can be associated with central and enduring characteristics such as investment strategies (Rao, Davis, & Ward, 2000). These characteristics may be used to distinguish one group from another group that is competing for scarce resources. When actors identify with a category or group, they no longer act as separate, stand-alone social entities, but instead perceive themselves to be similar to this group (Hogg & Terry, 2000). Actors who strongly identify with a group are more likely to follow group norms (informal constraints) and directions from a group leader (formal constraints).

Following the definitions of organizational identity (Albert & Whetten, 1985) and strategic group identity (Peteraf & Shanley, 1997), we define *shareholder coalition* as the shared understanding among shareholders regarding the central and enduring characteristics of the group. Central characteristics used by social actors to form shareholder coalitions may include similar investment and business strategies (Peteraf & Shanley, 1997). Strategic orientation among different types of shareholders is a highly salient attribute in the group formation process. For instance, family firms often engage in a business strategy aimed at securing firm survival rather than maximizing shareholder value (Gomez-Mejia, Haynes, Núñez-Nickel, Jacobson, & Moyano-Fuentes, 2007). More generally, even shareholders that pursue exclusively financial interests such as shareholder value maximization may have vastly different strategic plans on how to implement their shareholder value maximization strategy.

The emergence of a shareholder coalition is based on two conditions. First, the group must exist for a meaningful period of time (Huddy, 2001). Temporal stability is an important requirement to reduce uncertainty and organize collective actions. Although minority shareholders often exit the company when times get tough, larger shareholders typically stay longer with the company due to costs associated with trading large ownership stakes (Dyck & Zingales, 2004). This in turn positively affects temporal group stability. Second, a social identity must be sufficiently strong in order for the group to act collectively (Huddy, 2001). Groups with weak identities do not exist in any meaningful sense and often lack the preconditions for coordinated actions (Brubaker & Cooper, 2000; Peteraf & Shanley, 1997).

Strength of the shareholder coalition

A social group identity is a necessary but not sufficient condition for PP conflicts to emerge. Additional motivational factors are necessary in order to create strong group identification and intergroup conflicts (in this case, PP conflicts). We focus here on (1) self-esteem and (2) uncertainty reduction as two of the primary motives for creating strong group identities (Hogg, 2002; Hogg & Terry, 2000). We build our arguments around two major forms of corporate ownership: (1) family ownership and (2) institutional investors.

Self-esteem is one of the major motivational factors for actors to join and identify strongly with a particular group (Rao et al., 2000). One way to pursue positive group identity is through the presence of high status actors (Hogg & Terry, 2000). High status actors within a collective are one of the primary reasons to identify with a social group. Status refers to a socially constructed, intersubjectively, and mutually agreed upon ordering of social actors (Deephouse & Suchman, 2008: 59).

Many corporations around the world are owned by families (La Porta et al., 1999), but rarely do corporate governance studies look into the internal structure of families (Cruz, Gomez-Mejia, & Becerra, 2010). The presence of high status family members such as the founder of the company can be an important element leading to strong group identity for two reasons. First, family members tend to identify themselves with their family as part of a developmental process in which rules, principles, and traditions of the family are accepted (Korostelina, 2007). The family category is also likely to become salient as it maximizes the relevant similarities between group members, hence satisfying social esteem motives (Hogg, 2002). Second, the affiliation with high status actors causes status diffusion. Status diffusion refers to a process in which the status of one actor affects the social evaluation of actors affiliated with the high status actor (Podolny, 2005). Assuming the founder grew the firm successfully, the resulting high status position of the founder is likely to diffuse to other family members. This diffusion process satisfies the self-esteem motives of shareholder coalition members.

This view on social identity does not assume frequent interpersonal contact or even interpersonal liking. A social actor that strongly identifies with a group shares a common destiny with the group and experiences psychic loss when leaving the group (Ashforth & Mael, 1989). Although family members typically interact frequently, they do not necessarily share the same objectives or investment strategies (Gomez-Mejia, Nuñez-Nickel, & Gutierrez, 2001). This, however, should not hinder the perception of a shared family destiny. Moreover, family members often feel mutual social obligations toward each other (Cruz et al., 2010).

While the formation of a shareholder coalition may be facilitated in a formal group such as a family, coalitions may also form among professional investors such as institutional investors (Crespi & Renneboog, 2010; Maury & Pajuste, 2005). For instance, Rao et al. (2000: 270) extended the individual-level focus of social identity theory to the organization level of analysis. Here a social identity may form based on "the industry to which they belong, the organizational form they use, and through membership in accrediting bodies." High status professional investors such as well-known venture capital firms may influence the perceived status of the shareholder coalition. Hence, the need for positive social identity driven by the presence of a high status actor leads social actors to strongly identify with the group. To sum up:

Proposition 1 The higher the status of social actors in a shareholder coalition, the greater the likelihood that a strong shareholder coalition will emerge.

Uncertainty reduction may also affect the formation of a strong group identity (Hogg, 2002; Hogg & Terry, 2000), thus facilitating the formation of a shareholder coalition. Uncertainty can arise from various sources, ranging from uncertain states of the world to strategic nondisclosure (Williamson, 1985). Social actors join groups to reduce their subjective uncertainty (Hogg, 2000). Uncertainty has a special role in PP conflicts as it is ultimately related to a reduction of control over one's affairs (Hogg, 2000: 227).

Non-diversified actors are typically risk averse. In the classic agency theory literature with its focus on PA conflicts, the risk averse role is typically played by managers due to their non-diversified human capital, whereas shareholders are assumed to be risk neutral due to their ability to diversify their investment portfolio (Eisenhardt, 1989). However, PP conflicts involve controlling shareholders that are typically not well diversified, hence it stands to reason that these large shareholders are relatively more risk averse than diversified investment funds. Moreover, engaging in PP conflicts may be illegal (La Porta et al., 2000) or unethical (although legal) (Young et al., 2008), therefore introducing a considerable degree of uncertainty. Hence, the uncertainty stemming from PP conflicts may motivate shareholders to join forces with other shareholders that are able to reduce uncertainty and the associated risk (Hogg, 2000).

For instance, the presence of large institutional shareholders can reduce uncertainty in a number of ways. First, large institutional shareholders often hold a large portfolio of firms and vote routinely on governance issues such as poison pills (Black, 1990). This expertise in corporate governance issues is likely to become a valuable resource that reduces uncertainty for other group members. Importantly, a shareholder coalition involving institutional investors may only rarely engage in PP conflicts that are illegal since these investors generally face greater legal scrutiny from regulators (Maury & Pajuste, 2005). However, since PP conflicts may also involve legal and "gray areas," institutional investors may be a valuable source to reduce uncertainty (La Porta et al., 2000). Second, institutional investors with a large ownership stake in the company may be less able to exit the firm without taking financial losses.

Institutional investors reduce uncertainty for other members of the shareholder coalition through providing information to other members. Hence:

Proposition 2 The more effective that certain social actors can reduce uncertainty for other members of the shareholder coalition, the greater the likelihood that a strong shareholder coalition will emerge.

The previous section focuses on the emergence of shareholder coalitions that create the social infrastructure for PP conflicts. Our arguments so far are based in the rational-choice tradition assuming that interest conflicts can be relatively easily quantified in monetary terms. However, it seems reasonable to also consider identity-based factors that influence the propensity of a shareholder coalition to engage in PP conflicts.

Research grounded in the formal institution-based view highlights the cost/benefit calculations derived from formal rules and regulations. For instance, Renders and Gaeremynck (2012) analyzed the cost/benefit calculations of controlling shareholders to engage in PP conflicts from a formal institutional perspective. Based on a sample of European companies operating in an institutional environment characterized by high-quality information disclosure, they found that controlling shareholders are unable to install corporate governance mechanisms simply as window-dressing. Thus, formal institutions influence directly the ability and motivation of controlling shareholders to engage in PP conflicts.

However, formal institution-based perspectives ignore identity-based factors that influence the perceived costs/benefits (Rowley & Moldoveanu, 2003). Shareholders that identify themselves as shareholder coalition create a strong shareholder coalition. This identification may emphasize non-financial objectives such as family firm survival that influence the rational cost/benefit calculations within the shareholders coalition (Klandermans, 1984; Rowley & Moldoveanu, 2003). For instance, each family member that individually holds shares of the firm may on his/her own consider costs and benefits of engaging in PP conflicts if the social identify among family members is weak. In this case, even though the family has sufficient voting rights to enjoy the private benefits of engaging in PP conflicts, the family may not engage in PP conflicts because the norms for collective action are relatively weak and the objectives of the group are not clearly defined and agreed upon. However, if social identity among family members is strong, it is likely that non-financial goals such as family firm survival would receive additional importance and influence cost/benefit calculations as family members derive utility from continued membership in the family. Hence:

Proposition 3 Identity-based factors alter the perceived cost/benefit relation of engaging in PP conflicts.

Culture and PP conflicts

Once a shareholder coalition has sufficient voting rights to influence corporate decision making, informal institutions such as culture may have a profound impact on the resulting PP conflicts.

Williamson (1993: 476) pointed out that the "main import of culture, for purposes of economic organization, is that it serves as a check on opportunism." Opportunism, defined as "self-interest seeking with guile" (Williamson, 1985: 47), is an important construct that influences intergroup relationships (Eisenhardt, 1989). Hence, informal institutions such as culture may play a central role in the emergence of PP conflicts. Importantly, from the perspective of the institution-based view, it is unsatisfactory to assume invariant levels of opportunism around the world (Chen, Peng, & Saparito, 2002). Hence, culture may be a contingent condition affecting opportunism in intergroup relationships.

All cultures show a basic in-group favoritism, suggesting that ingroup members tend to discriminate against outgroup members (e.g., one prefers friends over strangers) (Brewer & Gaertner, 2004). Importantly, cross-cultural studies show that intergroup conflicts (e.g., PP conflicts) vary systematically with the cultural background of the actors involved and especially with the motivation to act according to individualistic or collectivistic values (Hofstede, 1983, 2007). Culture, and in particular the collectivistic orientation of the controlling shareholder coalition, may have a profound impact on intergroup relationships. Chen et al. (2002) argued that moral obligations to related or unrelated groups may be the driving force behind intergroup opportunism. The opportunistic propensity of actors facing conflicting interests depends on the cultural prior conditioning of the actors involved. Individualists may show a higher propensity to engage in opportunistic behavior in *intra*-group interactions, whereas collectivists may show a higher opportunistic propensity in *inter*-group interactions (Chen et al., 2002). Triandis (1995) supported this argument and pointed out that collectivists attribute greater priorities towards the goals and interests of the ingroup.

Private benefits of control that the controlling shareholder coalition derives from engaging in PP conflicts are by their very nature difficult to observe. Moreover, these secretive transactions may carry legal liabilities (Dyck & Zingales, 2004). Hence, the propensity to act opportunistically may be directly influenced by the willingness of the controlling shareholder coalition to engage in such wealth transfer from minority to controlling shareholders. Opportunism in this context may not necessarily involves extreme forms such as lying or stealing, but may simply refer to withholding critical information (Wathne & Heide, 2000). For instance, a controlling shareholder may have access to private information regarding valuable investment opportunities. Hence, the controlling shareholder may simply use this information and capture the valuable opportunity with another business that is fully owned by the controlling shareholder. Hence:

Proposition 4 PP conflicts will be more likely to occur if the controlling shareholder coalition is composed of relatively more collectivistic actors.

Trust and PP conflicts

Trust is an important condition in collective group decisions that are not governed through formal mechanisms such as formal contracts (Fukuyama, 1995). Hence, the secretive (and sometimes illegal) nature of PP conflicts makes formal governance mechanisms less useful. Trust can be defined as "willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party" (Mayer, Davis, & Schoorman, 1995: 712) and may have an important impact on the governance of transactions involving actors with varying collectivistic orientation (Chen & Li, 2005).

Some studies suggest that cultural values in the form of collectivism directly affect collaboration among social actors. For instance, Early (1989) suggested that social loafing is more prevalent in groups of low collectivism. However, more recent studies suggest that this direct effect of culture is conditional on formal and informal sanctioning systems (Chen & Li, 2005). These contradictory findings may be reconciled by differentiating between the institutional and the individualistic view of culture (Yamagishi, Hashimoto, & Schug, 2008).

At its core, the institutional view of culture suggests that collectivistic social actors are more likely to reveal their egoistic side once monitoring mechanisms are weak (Chen & Li, 2005; Yamagishi et al., 2008). The institutional view of culture suggests that social expectations are primarily responsible for more collaborative outcomes between collectivistic actors (Chen & Li, 2005). For instance, Yamagishi (1988) found that more collectivistic subjects (e.g., Japanese subjects) cooperate less than more individualistic subjects (e.g., US subjects) when formal sanctioning systems are absent (e.g., ad hoc short-term groups), a finding in direct contrast to what would be predicted by the individualistic view of culture. Hence, it stands to reason that more collectivistic actors cooperate with other members of a group (or shareholder coalition) only if mutual monitoring and sanctioning systems are in place.

One important construct that may be utilized as external informal monitoring device is trust in a relationship. Trust can either be provided by country-wide institutions in the form of general societal trust (Fukuyama, 1995) or through repeated and long-term interactions within small groups such as shareholder coalitions (Gulati, 1995). The latter conditions may be occurring in relatively stable, long-term formal groups such as families. For instance, Faccio, Land and Young (2001) found that minority shareholder expropriation is a more serious issue in Asia than Europe once multiple large shareholders are present. Given that family ownership is the predominant ownership form in Asia (Claessens et al., 2000), Maury and Pajuste (2005: 1819) suggested that long term relationships among family-controlled firms in Asia provide the necessary trust and mutual monitoring to engage in PP conflicts. Thus, according to the institutional view of culture, the mutual monitoring provided by trusting relationships between shareholders may facilitate coordination and collective actions within a shareholder coalition composed of collectivistic shareholders. Hence:

Proposition 5 The positive relationship between PP conflicts and collectivistic orientation of members of the controlling shareholder coalition (Proposition 4) will be stronger when a high level of trust has been developed among members of the controlling shareholder coalition.

Discussion

Contributions

Our article makes at least three contributions. First, an emerging stream of research theoretically and empirically sheds light on the emergence of shareholder coalitions from a formal economic perspective (Bennedsen & Wolfenzon, 2000; Crespi & Renneboog, 2010; Maury & Pajuste, 2005). Joining Estrin and Prevezer (2011), we complement this important stream of research with an explicit focus on informal institutions. For instance, La Porta et al. (1999: 476) called for more attention to the conditions under which shareholder coalitions emerge. They also highlighted that "a theoretically appropriate measure requires a model of the interactions between large shareholders, which we do not have." Our article is a first step to a better understanding of shareholder coalitions from the perspective of the institution-based view on corporate governance.

Second, we extend prior pure interest-based accounts of PP conflicts with additional attention to identity-based factors. This treatment of PP conflicts is consistent with a stream of research incorporating non-financial goals (Klandermans, 1984; Rowley & Moldoveanu, 2003). We advance the *informal* institution-based view of corporate governance by highlighting the role of culture and trust in PP conflicts. This line of research is important in order to advance context-based management theories (Meyer, 2007). Moreover, our arguments are consistent with the view that culture may not always result in an informal institution that guides social behavior (Helmke & Levitsky, 2004: 728). For instance, Peng et al. (2009) argued that no national culture is more or less likely to engage in network-based strategies such as *guanxi*, but individuals and firms only do so if the institutional context provides incentives to use such strategies. Our treatment of culture in general and collectivistic orientation in particular is consistent with this view. For instance, the institutional view of culture (Yamagishi et al., 2008) points out that culture may only be used as informal institution if it results in shared social expectations (Helmke & Levitsky, 2004).

Finally, our discussion of PP conflicts advances the economic-rational treatment of collective action. Prior studies focused almost exclusively on rational behavioral assumptions and highlighted financial interests. We advance theory by showing that not only formal institutions, but also informal institutions may have a profound impact on PP conflicts. Overall, this article joins Globerman et al. (2011), Jiang and Peng (2011a, b), Peng and Jiang (2010), Peng and Sauerwald (2012), and Young et al. (2008) to broaden and deepen our understanding of PP conflicts.

Limitations and directions for future research

Our article is an initial attempt to probe into an institution-based view on corporate governance that explicitly takes into account informal institutions and focusses on PP conflicts. Nevertheless, some questions warrant further research attention. First, research on PP conflicts (Jiang & Peng, 2011b; Peng & Jiang, 2010; Young et al., 2008) has only started to look at governance mechanisms to protect minority shareholders' interests. Given the extensive literature on agency conflicts with its numerous measures to protect investors from expropriation by strong managers (Fama &

Jensen, 1983; Jensen & Meckling, 1976), the PP literature has significant research potential in this regard. In particular, it may be helpful to continue the research presented in the current paper and other works grounded in a more formal approach (Crespi & Renneboog, 2010; Maury & Pajuste, 2005). For instance, how does the existence of multiple large shareholders influence PP conflicts, and under what conditions are large shareholders effective monitors or "partners-in-crime" (La Porta et al., 2000).

Second, we do not propose that formal institutions are irrelevant or less important than informal ones. Helmke and Levitsky (2004) and Estrin and Prevezer (2011) incorporated formal institutions into their discussion of informal institutions and argued that informal institutions become important when formal ones are largely symbolic. We concur and believe that an integrative approach that combines formal and informal institutions can advance our understanding of international corporate governance practices. More research on the interaction between formal and informal institutions is necessary.

Third, future research may incorporate the effects of agency into a model of social identity formation among shareholders. Prior studies of social identity pay scant attention to the active management of identities. Pratt and Foreman (2000: 18) suggested that "identities can and should be managed." This active management role of course is important since identification with a social group facilitates many useful group properties such as behavioral conformity to norms. Other studies similarly suggest that groups may be actively politicized (Simon & Klandermans, 2001). These findings suggest that it may be useful to further inquire the conditions under which shareholder groups can be actively managed.

Conclusion

The central argument in this article calls for more attention to the informal institutions that shape PP conflicts. We have argued that informal institutions affect the emergence of shareholder coalitions through creating a shared social identity. Moreover, informal institutions such as culture and trust may advance our understanding of PP conflicts in companies with a controlling shareholder. Future theoretical and empirical contributions offer exciting research opportunities.

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