

**EXECUTIVE PAY NARRATIVES IN GERMANY AND RUSSIA:
CASES OF PATH DEPENDENCE?**

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ABSTRACT

Based on a media content analysis of the coverage of the “Minder Initiative” in Switzerland and the discussion related to golden parachutes for senior managers of public corporations in Russia and Germany, we analyse the differences in reactions to and perceptions of the above phenomena in both countries. Our results show that although the public discourse in both countries is fuelled by political parties, the arguments, consequences and measures taken differ to a great extent. While the narrative in Germany is built around income fairness, the discussion in Russia takes on a path-dependent shape around managing state-owned corporations. The results are discussed from the legitimation perspective of the path dependence framework.

Keywords: Germany, Russia, corporate governance, executive compensation, golden parachutes

INTRODUCTION

The latest financial crisis and the related economic recession, which have severely affected the majority of both industrialised and developing countries, have evoked the interest of the public in the excessive pay packages of executives employed by large corporations and banks. Mass media and the practitioner and academic literature (see, for example, Bebchuk, 2010) have also taken a particular interest in this topic. Simultaneously, it has caught the eye of regulators throughout the world (Mallin, 2010), an example of which is the latest Regulation of the European Parliament on bankers’ bonus caps (Baetz, 2013).

However, it is difficult to forecast the long-term development of regulations curbing executive pay across countries. Prevalent executive remuneration systems are rooted in local corporate governance systems (Buck & Shahrin, 2005), which in turn are “shaped by [their] institutional embeddedness” (Aguilera & Jackson, 2003, p. 448). Here, the prevalence of specific corpo-

rate governance practices is related closely to the notion of legitimacy at the societal level (Judge, Douglas, & Kutan, 2008) and is dependent on the mechanisms of institutional isomorphism, or homogeneity, as described by DiMaggio and Powell (1983). For instance, Aguilera and Jackson (2003, p. 449) state that “[w]here institutional environments are *nationally* distinct, isomorphic processes drive corporate governance practices to become more similar within countries and to differ across countries” (emphasis in original).

Some studies (Buck & Shahrim, 2005) relate changes in corporate governance, including executive pay, to the notion of national culture (Hofstede, 1980). Within the institutionalist paradigm, however, this argument corresponds instead to the normative basis of institutional legitimacy (Judge et al., 2008; Peng, Wang, & Jiang, 2008). Existing societal norms can lead to various conflicts within stakeholder interactions (Aguilera & Jackson, 2003), which may result in changes to existing corporate governance systems. Here, the interrelation between public opinion, public policies and corporate governance is of primary importance. On the one hand, “[c]orporate governance systems reflect public policy choices” (Gourevitch & Shinn, 2005, p. 2), whereas on the other hand, it is generally accepted that public policies are influenced by public opinion (for a summary and critique, cf. Burstein, 2006).

Earlier this year, the so-called *Minder Initiative*, a campaign against excessive executive compensation initiated by Thomas Minder, a Swiss entrepreneur, was approved by the majority of voters in a general referendum in Switzerland (Bosley, 2013). This proposed piece of legislation, which is planned to impose numerous limitations on the executive compensation schemes of Swiss companies, including a ban on *golden parachutes*, has received increased attention in international business and mass media circles. In Germany and many other European countries, this initiative has ignited an intensive discussion on the appropriateness of executive rewards. However, it seems that the public reaction in some other parts of the world is far weaker. Furthermore, it can only be speculated about the consequences of these discussions in respective countries.

The main objective of our study is to analyse reactions to the Minder Initiative with respect to the ban on golden parachutes and its expected effects on local corporate governance systems in Germany and Russia. By selecting these countries we aim at contrasting two institutionally distant nations (Berry, Guillén, & Zhou, 2010; Kostova, 1999). In Germany, a country with a well-established corporate governance model (Shleifer & Vishny, 1997), there have been exhaustive discussions over the last two decades on issues relating to the need to increase the

transparency of corporate decision-making and compliance, which have led to numerous recent improvements in this field (Cromme, 2005; Lieder & Fischer, 2011). Conversely, Russia is still referred to as a country with weak institutional settings with respect to corporate governance (Wright, Filatotchev, Buck, & Bishop, 2003).

Although the Minder Initiative has been discussed in the academic literature primarily with respect to its possible impact on legislation in Switzerland concerning *say-on-pay* regulations, i.e. legislation prescribing shareholder voting on executive compensation (see, for instance, Lieder & Fischer, 2011), developments concerning the *say-on-pay* laws are not the focus of our attention. This is due to the fact that, compared to Switzerland, legislative provisions in some European countries, including Germany, already stipulate rather extensive shareholder rights in this respect (Lieder & Fischer, 2011). On the other hand, a ban on golden parachutes would constitute a truly radical change in the freedom of companies to design compensation packages for their CEOs in Switzerland as well as in the countries studied.

The rest of the paper is structured as follows. First, we outline the background of the study, including the Minder Initiative and corporate governance systems in Russia and Germany. In the following sections we describe the method used, including the design of the study, data collection and analysis, as well as the results of our research. In the remaining sections we discuss the results of the study from the path dependence perspective.

BACKGROUND OF THE STUDY

Minder Initiative

On March 3, 2013, during a general vote in Switzerland, 68% of the Swiss electorate voted in favour of an initiative suggesting far-reaching limits on executive pay in Swiss public companies, including:

- A ban on severance pay and bonuses for joining the company;
- The say-on-pay rights of the respective companies' shareholders;
- The involvement of pension funds in voting on executive pay;
- Up to three years in prison or penalties summing up to six years' salaries for violations of the respective legislation (Denning, 2013; The Economist, 2013).

This vote was initiated by Thomas Minder, a Swiss entrepreneur, whose family business was on the verge of bankruptcy when Swissair was unable to pay for the products supplied by his company, Trybol, in 2001, while in the same year Swissair paid 12 million Swiss francs (approximately 9.6 million US dollars at that time) in advance to Mario Corti, the new CEO of the company, who left shortly afterwards. This stimulated the strong opposition of Mr Minder to excesses in executive pay (Minder, 2013).

The assertion to ban the payment of executives for joining or leaving the company – as one of the central claims of the initiative – won even more support from the Swiss voters due to the public outrage which followed the agreement to provide 72 million Swiss francs' (about 76 million US dollars) worth of severance pay to Daniel Vasella, a departing chairman of Novartis, a Swiss pharmaceutical company (The Economist, 2013), in February 2013. Interestingly enough, it was the annual pay package of Daniel Vasella, amounting to 44 million Swiss francs, and his employment contract which foresaw a golden parachute worth five years' pay, which was at the centre of Thomas Minder's ire as far back as 2007 (The Economist, 2007).

As a further step, the Federal Council will issue an ordinance incorporating the provisions contained in the Minder Initiative until necessary legislative amendments have been introduced to the Swiss Code of Obligations (Deloitte, 2013). The first draft of the ordinance was issued on June 14, 2013, and it is expected to be finalised in November 2013 and come into force on January 1, 2014 (KPMG, 2013).

Corporate governance systems in the countries studied

Russia

The development of the Russian corporate governance system needs to be regarded in the context of the transformation process after the fall of state-socialist regimes in Central and Eastern Europe (CEE) in 1989–1990. The transformative character of institutional environments resulted in corporate governance problems which are also common for emerging economies (Wright, Filatotchev, Hoskisson, & Peng, 2005). According to Young et al. (2008), the major features which make corporate governance systems in these countries different from those in developed economies are concentrated ownership, the large prevalence of family-owned businesses, business group structures and the insufficient protection of minority shareholders' rights. Prior research (see, for instance, Festing & Sahakiants, 2011, 2012) shows that the above major characteristics of corporate governance systems typical of emerging economies are also typical of corporate governance systems in CEE transitional states. For instance, corporate governance in Russia is characterised by a significant percentage of insider shareholders (30–35%), state ownership (10–12%) and significant ownership concentration, which is, however, on average lower than in the Czech Republic, Hungary and Poland (Radygin, 2006).

According to Tafel, Terk and Purju (2006), the major specific elements related to corporate governance in CEE relate to the process of privatisation, the main methods of which are voucher privatisation, direct sales and management and employee buy-outs (cf. Aguilera & Dabu, 2005; Mallin & Jelic, 2000). An important feature of this process in Russia is insider privatisation (Filatotchev, Wright, & Bleaney, 1999). For instance, Radygin stated that “mass privatisation has resulted in property dispersion, and the former (Soviet-time) CEOs were actually the masters in corporations during the first half of the 1990s” (2006, p. 286). As a result, a large number of formerly state-owned companies were taken over by former managers, which as such makes even more complex the problems of transitioning from family (or founder)-managed to professionally-managed firms, on the one hand, and conflicts between major and minor shareholders on the other.

The social and political transformation in Russia is also reflected in the development of its corporate governance model. Tafel et al. (2006) noted that corporate governance systems in CEE were based initially on various countries' models: the German model can be observed in

Poland, while the Anglo-American one prevails in Russia. However, this did not guarantee the good functioning of the respective systems. For instance, Maly wrote about the Czech corporate governance system, in that its development “attempted to follow the example of the European market economy countries, sometimes without fully understanding the logic of the whole system” (2006, p. 117), a statement which can also be applied to the corporate governance system in Russia. For instance, the orientation on different corporate governance models manifests itself through board systems in respective CEE countries. While the German-type two-tier board system (consisting of a management and a supervisory board) was adopted by several countries in the CEE region, in Russia boards of directors enact – under law – the functions of supervisory boards, but in reality they often perform executive functions (Festing, Sahakiants, von Preen, & Smid, 2011).

Among possible sources of isomorphism of Russian corporate governance standards with industrialised country models are international companies and listings on foreign stock exchanges. Berglöf & Thadden (1999, p. 25) wrote that “the overwhelming finding from transition economies, at least in Central and Eastern Europe, is that outside, preferably foreign, investors are crucial in bringing about active and deep restructuring.” It can therefore be suggested that foreign-based companies might serve as examples and disseminators of good governance consistent with the mimetic isomorphism perspective (DiMaggio & Powell, 1983). For instance, this effect can be traced to the example of Russian corporations trading on foreign stock exchanges, which adopt corporate governance standards typical for industrialised countries, especially with respect to information disclosure (Dolgopiatova, 2009).

In 1999, the OECD released its “Principles of Corporate Governance” updated in 2004 (OECD, 2004), which served as an important benchmark for designing corporate governance systems in CEE countries (Hermes, Postma, & Zivkov, 2007; Martin, 2010; Tamowicz & Przybyłowski, 2006). Russia has largely implemented the OECD principles and in this respect can be regarded as a high compliance country (Estrin & Prevezer, 2011). However, notwithstanding the high level of compliance of the Russian corporate governance system with the OECD principles and the formal protection of minority shareholder rights stipulated in Russian law (Wack, 2006), “in the case of Russia, the formal rule of law and protection of minority shareholders is undermined by lack of enforcement and arbitrary corruption” (Estrin & Prevezer, 2011, p. 57), examples of which abound in the extant academic literature

(Radygin, 2006). According to Mallin (2010), one of the specifics of the Russian Corporate Governance Code is related to dividends, whereby it stipulates the basis for calculating dividends, deadlines for payments as well as sanctions for delays or non-payment, including a reduction in a CEO's compensation.

Earlier this year the Russian Federal Service for Financial Markets (FSFM) issued a draft version of the new Corporate Governance Code, which was supposed to replace the earlier version of the Code, which had been in force since 2002. It was designed to consider amendments to current Russian law and to further strengthen shareholders' rights. With respect to compensation – among other things – it proposes a more detailed disclosure of executive pay and compensation for Members of the Board of Directors (FSFM, 2013; Orlova, Melnikov, & Jumailo, 2013).

Germany

Contrary to the situation in Russia, the roots of the German corporate governance model can be traced back to at least the 19th century (Buck & Shahrim, 2005). This relates above all to employee participation in company affairs, which later on found its development in the institution of works councils mandated by German legislation from the early 20th century onwards (Müller-Jentsch, 2008). However, according to Hartz and Steger (2010), the German corporate governance system is mainly a product of the country's development after World War II. Steger and Hartz (2006) describe the German model as being characterised by the following four major features: (1) a two-tier board system consisting of a management board and a supervisory board; (2) a system of co-determination – participation of employee representatives in managing the company; (3) the extensive role of banks as major shareholders in German companies and (4) the extensive participation of German corporations in the ownership and management (e.g. positions on supervisory boards) of German companies.

Related to the last two features of the German corporate governance system is the rather high ownership concentration in Germany, which is opposed to the widely dispersed shareholding model found in the USA and UK (Aguilera & Jackson, 2003). However, the concentration of ownership in Germany, paired with the efficient protection of shareholder rights, does not lead to agency-related corporate governance problems similar to those in Russia and other CEE transformation economies. According to Young et al. (2008, p. 200), “in developed

economies, concentrated ownership is widely promoted as a possible means of addressing PA [principal-agent] conflicts.”

Specific to the German system is the traditional role of the supervisory board in determining executive compensation. In 2009, an Act on the Adequacy of Executive Compensation introduced several changes to give more responsibilities to the supervisory board and the possibility of a non-binding shareholder vote on the compensation of management board members (Lieder & Fischer, 2011).

Table 1 below sums up the main features of corporate governance systems in Russia and Germany, according to Mallin (2010).

Table 1. Key characteristics influencing corporate governance in the countries studied

| Feature | Key characteristic | |
|---------------------------------|--|---|
| | Russia | Germany |
| Predominant ownership structure | Insiders (managers and workers), although outsiders increasing | Financial and non-financial companies |
| Board structure | Dual/Mixed ¹ | Dual |
| Important aspect | Covers dividend payments | Compulsory employee representation on supervisory board |

¹ See Festing et al. (2011)

Source: Adapted from Mallin (2010, pp. 216, 262).

METHOD

For the purpose of this study we performed a comparative analysis of newspaper articles in Russia and in Germany devoted to the Minder Initiative in particular and golden parachutes in general, as well as related online readers’ comments. The inclusion of online forum discussions in our sample – along with mass media reports, which have an “agenda-setting function” (McCombs & Shaw, 1972) – was based on the assumption of the bottom-up nature of the Minder Initiative in Switzerland and thus the expectation that this campaign has the potential to find support among non-institutional stakeholders in the respective countries.

Several studies have analysed media reports to study changing discourse on corporate governance regimes (Hartz & Steger, 2010; Steger & Hartz, 2006). The choice of the research method is based on the assumption that “the mass media are able to blame, applaud and scandalize, and in doing so, have the potential to (de-)legitimize managerial and organizational behaviour” (Hartz & Steger, 2010, p. 769). Thus, the mass media promotes the link between discourse and institutionalisation analysed by Phillips, Lawrence and Hardy (2004). According to Dyck, Volchkova and Zingales (2008, p. 1128), “media coverage is not just a mirror of reality, but it can have important effects on reality itself, and in particular on corporate governance.”

For the purposes of this study we used media content analysis (Macnamara, 2005) to show the main directions of public discourse on the topic in the countries studied. The main elements studied are: (1) media coverage of the topic; (2) main corporate governance improvements suggested and (3) online readers’ comments on golden parachutes, including critiques/support of this compensation element and proposed measures.

Although our analysis incorporates both quantitative (counting of articles and comments with specific content) and qualitative elements (identification of those articles and discussion comments which fall under a specific category), we identify our study as a qualitative analysis, which allows us to analyse the contextual meaning and possible social and historical roots of current corporate governance discourses in the respective countries – in line with the qualitative paradigm (Guba & Lincoln, 1994).

Here, we systematically analysed articles in *Handelsblatt* and *Kommersant*, two major business newspapers in Germany and Russia, respectively, which appeared during the period from February 01, 2013 until May 31, 2013. Table 2 below describes the main features of the papers as well as the number of articles and online readers’ comments analysed.

Table 2. Description of the samples

| | Kommersant | Handelsblatt |
|---|--|--|
| Country of origin/Language | Russia/Russian | Germany/German |
| Newspaper type | Daily ¹ | Daily ² |
| Circulation | 125,000–130,000 | 140,728 ³ |
| Online edition | www.kommersant.ru | www.handelsblatt.de |
| Articles analysed | 98 | 116 |
| Final sample of articles | 33 | 36 |
| Reader's comments analysed ⁴ | 370 | 266 |

¹ Monday–Friday
² Monday–Saturday
³ Number of newspapers sold
⁴ Related to the final sample of articles

Source: Handelsblatt (n.d.), IVW (2013), Kommersant (n.d.).

In the data collection phase we performed keyword searches in the online versions of the newspapers, according to the parameters described in Table 3. Here, respective keywords are stated together with the total number of respective articles found.

Although we concentrated primarily on severance pay-outs for executives, we also left in our final sample articles dedicated to respective pay-outs for professional athletes or racers as well as members of parliament. This choice was made during the data analysis stage, due to the fact that one of the arguments used to justify executive golden parachutes was the comparison with professional sportspeople, on the one hand, and in consideration of the ongoing debate on severance pay of Russian members of parliament.

In order to check the robustness of results, we used several keywords alternative to those shown in Table 3. However, such additional searches did not result in any additional relevant articles.

Table 3. Online search parameters

| | Kommersant | Handelsblatt |
|---|---|---|
| Media types included in the search | <i>Kommersant</i> newspaper (available in the online version), <i>Kommersant</i> online | <i>Handelsblatt</i> online: articles and weblog only |
| Keywords (number of articles found ¹) | Minder (1) Referendum, Switzerland (4) Golden parachute (33) Severance pay ² (60) | Minder, Switzerland (4) Popular initiative, rip-off (9) Vote, Switzerland (13) Rip-off artists, Switzerland (13) Severance pay ² (52) Golden parachute (3) Manager, severance pay (22) |

¹ Including articles containing the other keywords used. Refer to Table 4 for the total final number of articles found

² Including a total of five Russian and three German synonym words or phrases

RESULTS

The results of the final searches presented in Table 4 show a far more extensive coverage of the Minder Initiative and the Swiss vote in Germany than in Russia. While only three articles were dedicated to or mentioned the above topics in *Kommersant*, 20 respective articles were found in *Handelsblatt* within the same period of time. Interestingly, there was only a small difference in overall coverage of the topic of golden parachutes and the Minder Initiative in the two newspapers analysed: 33 articles in Russia versus 36 articles in Germany. There was also only a minor difference in the number of online readers' comments in favour of and against golden parachutes in the Russian and German newspapers studied.

Table 4. General summary of results

| | Kommersant | Handelsblatt |
|--|------------|--------------|
| Articles primary dedicated to Minder Initiative/Swiss vote | 3 | 20 |
| Articles dedicated to golden parachutes | 30 | 16 |
| Reader's comments in favour of golden parachutes | 5 | 4 |
| General critique of golden parachutes in readers' comments | 6 | 7 |

However, apart from the coverage of the Minder Initiative and the Swiss vote itself, it is not the number of articles but rather the nature of the discussion in both countries that represents a substantial difference between Russia and Germany. Table 5 presents a detailed summary of articles and comments in both newspapers. As described in the subchapters below, the discourses in both countries can be divided into those related to political responses to the Minder Initiative or related to the issue of golden parachutes (coming from politicians, political parties or constitutional institutions such as constitutional courts) and the remaining articles. The data summarised in Table 5 show that although fewer are articles dedicated to the political discussion rather than the remaining ones in both of the countries studied, there are on average far more comments on the coverage of political reactions to the topic analysed rather than on the rest of the articles. Another similarity between discussions in both countries is that there are less “topical” comments (i.e. related to the topic of golden parachutes) on the articles dedicated to political reactions rather than on the remaining articles.

Based on the specifics of national discourses described in the following subchapters, the data in Table 5 are presented not only for the whole time period of the study (February 1 – May 31, 2013) but they are also split for three distinct time periods within the main time frame: February 1 – March 3, 2013, March 4 – March 26, 2013, and March 27 – May 31, 2013.

This allows us to highlight further differences related to the discourse in both countries and reflects the major discussions described in the subchapters below. In Russia, the main discussion took place in the time period after March 27, 2013. In Germany, the majority of the arti-

cles dedicated to political reactions and related comments appeared in the period starting immediately after the Swiss vote on the Minder Initiative and lasting until March 26, 2013. However, a smaller number of remaining articles and related comments appeared in the same period compared to time periods before March 4 and after March 27, 2013.

Table 4. Comparative results

| | Kommersant (Russia) | | Handelsblatt (Germany) | |
|--|----------------------------------|--------------------|----------------------------------|--------------------|
| | Articles on political discussion | Remaining articles | Articles on political discussion | Remaining articles |
| February 1 – May 31, 2013 | | | | |
| Number of articles | 15 | 18 | 11 | 25 |
| Comments per article | 15.2 | 2.1 | 15.4 | 8 |
| Comments related to golden parachutes (number of comments [in % to total]) | 10 (4.4 %) | 14 (3.7 %) | 2 (1.1 %) | 9 (4.5%) |
| February 1 – March 3, 2013 | | | | |
| Number of articles | 2 | 3 | --- | 8 |
| Comments per article | 2 | 1 | --- | 14.8 |
| Comments related to golden parachutes (number of comments [in % to total]) | 3 (75 %) | --- | --- | 6 (5.1%) |
| March 4 – March 26, 2013 | | | | |
| Number of articles | --- | 7 | 9 | 7 |
| Comments per article | --- | 0.1 | 16.3 | 4 |
| Comments related to golden parachutes (number of comments [in % to total]) | --- | --- | 2 (1.4 %) | 2 (7.1 %) |
| March 27 – May 31, 2013 | | | | |
| Number of articles | 13 | 8 | 2 | 10 |
| Comments per article | 17.2 | 4.3 | 11 | 5.5 |
| Comments related to golden parachutes (number of comments [in % to total]) | 7 (3.1 %) | 14 (41.2 %) | --- | 1 (1.8 %) |

The following subchapters present the respective discourses in both countries within the time period studied.

Narrative in Russia

The first reference to the Minder Initiative in *Kommersant* was dated March 4, 2013, i.e. immediately after the referendum in Switzerland took place. Before that date, several articles were dedicated to or mentioned golden parachutes which had been provided to managers in Russian companies, as well as coverage of the scandal related to severance pay to members of regional parliaments in Russia. From March 4 until March 26, 2013, two more articles were dedicated to the Swiss vote and several others to golden parachutes in general, which did not provoke any substantial reaction in the form of online readers' comments (0.1 comments per article on average).

On March 27, 2013, *Kommersant* published an article stating that Alexander Provotorov, a former CEO of Rostelecom, a company with the Russian state as the largest ultimate owner¹, had left the company with a golden parachute in the region of 200 million Russian roubles (about 6.5 million US dollars). Although this fact was first mentioned in the same newspaper several days previously and garnered no reaction on the part of its readers, the above article focusing on the golden parachute of the Russian manager scored 31 online readers' comments. The provision of a multi-million dollar golden parachute to Mr Provotorov was used by the leading political party, headed by the President of the Russian Federation, Vladimir Putin, to initiate a legislative Act limiting severance pay to managers of state-owned corporations to 3–12 months' pay and to managers in companies co-owned by the state to 3–18 months' pay. From March 27 onwards, participation in the forum discussions increased significantly (12.3 comments per article on average). Especially active was the discussion on articles related to political reactions to the news of Mr Provotorov's pay-out, whereby the average number of comments per articles scored 17.2 (see Table 5).

In sharp contrast to the active participation of readers in the abovementioned discussion, articles dealing with severance pay to managers in companies not affiliated with the state featured far less in online readers' comments. For instance, there was only one comment (not related to the topic of golden parachutes) on the article dated March 20, 2013, stating the provision of a golden parachute amounting to two years' pay to Jonathan Muir, the former chief financial officer of the Russian-British joint venture TNK-BP, which was acquired by the Russian state corporation Rosneft earlier that year. Furthermore, just two comments (an ironic one and one containing an overall critique of golden parachutes) and one comment (not related to golden parachutes) were given to articles dated May 20, 2013, and May 21, 2013, stat-

ing that Vladimir Strzhalkovsky had left his position as vice-president of Norilsk Nickel, one of the largest privately² held Russian corporations and the “world’s largest producer of nickel and palladium” (Norilsk Nickel, 2013, p. 12), even though it was also mentioned in those articles that Mr Strzhalkovsky had received 100 million USD when he left the position as CEO of the company in December 2012. This fact was widely covered in the Western mass media, stating that it was the “largest golden parachute payout [sic.] in Russian history” (Kramer, 2012).

Neither were there any comments on the article dated April 15, 2013, on the US bankruptcy court case looking into the provision of a golden parachute payment to Tom Horton, the former CEO of American Airlines, owned by AMR Corporation which filed for bankruptcy in 2011, to the tune of 19.9 million USD (see, for example, Brown, 2013).

Narrative in Germany

Other than the Russian newspaper studied, the German *Handelsblatt* started its coverage of the Minder Initiative before the respective referendum in Switzerland: one quarter of all articles on the topic (five articles) were published before March 3, 2013. Interest in the topic was initiated by the news of the golden parachute paid to Daniel Vasella in February 2013, as described above. Afterwards, as in the case of Russia, the discussion quickly took on a political vein. Altogether, 11 articles out of 36 were dedicated to political parties’ reactions to and the Federal Government’s stance on the Swiss vote on the Minder Initiative. The majority of these articles (eight articles) were published within one week after the vote in Switzerland took place. The average number of readers’ comments on articles dedicated to political reactions in Germany (15.4 comments per article) by far exceeded those on the remaining articles (eight comments per article). However, this discussion concerned, first of all, excessive executive compensation and pay inequity in general rather than golden parachutes or specific issues proposed in the Minder Initiative. In a similar way, only a small fraction of all readers’ comments concerned golden parachutes as such, and the overwhelming majority of comments reflected the ongoing political discussion (see Table 5). Only about 1% of all readers’ comments on articles dedicated to the political reaction to the Minder Initiative (two comments out of 169) were related to the topic of golden parachutes at all, while the percentage of such comments in the remaining articles analysed was somewhat higher (nine comments out of 201, or about 4%).

There was apparently low public interest in not only the topic of golden parachutes in general, but also – other than in Russia – in the issue of severance pay awarded to senior managers in German SOEs. For instance, there were no negative thematic reactions to the articles mentioning the golden parachute paid to Hartmut Medhorn, a former CEO of the German Deutsche Bahn AG, who received a pay-out of 4.99 million euro (about 6.5 million US dollars in April 2009) in 2009 for leaving the state-owned railway corporation (Handelsblatt, 2013), a sum which exactly corresponds to the severance pay granted to the ex-Rostelecom executive officer described above.

DISCUSSION

The results of the study show substantial differences between both countries in the coverage and public interest relating to the Minder Initiative in general and golden parachutes in particular. Whereas the discussion in Germany was related closely to the events in Switzerland, the mass media coverage on and interest of the public in the Minder Initiative in Russia were considerably lower. This fact could be explained by the presumably higher institutional cross-national distance (Berry et al., 2010) between Russia and Switzerland as compared to Germany and Switzerland.

Moreover, building on the statement by Hartz and Steger (2010, p. 780) with respect to the media discourse that “the narrative represents and is bound to underlying values of the society or culture,” one explanation for such differences could lie in differences between the countries from the social norm perspective (Boytun, Deloof, & Matthyssens, 2011; McCarthy & Puffer, 2008). Dyck et al. (2008, p. 1128) suggested that “media coverage is effective only when a behaviour violates norms that are widely accepted in society.” For instance, reaction to the Minder Initiative in Germany, which mainly concerned the pay dispersion and fairness debate, can be explained by the traditional “egalitarian, stakeholder-oriented governance system in [the country]” (Sanders & Tuschke, 2007, p. 40). Similarly, Buck and Shahrin (2005, p. 49) underscored the possible lack of normative legitimacy of US-type pay systems and high pay differentials in Germany: “Executives and employees with a long tradition of *Gemeinschaft* (community) and moderately high levels of Collectivism may resist an innovation that offers potential conflict between senior managers and other employees, and greater pay inequality.”

However, the related discourse in Russia can hardly be explained by referring to such social norms as egalitarianism. The results show, for instance, very critical reactions to golden parachutes in an SOE, while even higher severance pay in privately-held corporations hardly evoked any negative reactions. This allows us to conclude that it is not a negative attitude to high executive pay as such but rather to compensation of executives in SOEs which gave impetus to the respective discussion in Russia.

We suggest that the above-described social norms and attitudes in both countries are path-dependent (Mahoney, 2000; Stark, 1992) in their nature. Whereas the roots of the non-acceptance of high income differentials in Germany can be traced back to participative organisational patterns emerging more than a century ago, negative attitudes towards managers of SOEs in Russia instead reflect socio-economic developments in the country over the last few decades and stem from the late state-socialist period. At that time, the ineffective operation and management of SOEs, which at the time built the basis of the Soviet economic structure, were generally considered as one of the main reasons for the stagnation and crisis prevalent in the national economy. This negative image of SOEs was maintained in the years following economic transformation and was enhanced by the bankruptcies of many SOEs, on the one hand, and cases of corruption and interrelations between state officials and management of SOEs on the other.

Consequently, the resulting path dependence of corporate governance systems corresponds to the legitimation framework of path dependence suggested by Mahoney (2000), in which “institutional reproduction is grounded in actors’ subjective orientations and beliefs about what is appropriate or morally correct” (p. 523). We believe that this legitimation elucidation is a useful tool in explaining institutional reproduction beyond the utilitarian view (ibid.) based on the analysis of self-reinforcing processes³, as it focuses specifically on “cognitive frameworks that are predominant in society” (Mahoney, 2000, p. 525).

CONCLUSION

The results of our media analysis of corporate governance narratives in Germany and Russia, following the Swiss vote on the so-called Minder Initiative, establish that the respective discussions followed specific paths embedded in national societal norms. In neither of the countries did the public debate follow the exact suggestions of the Minder Initiative. In Germany, a country with more developed legislation than Switzerland with respect to say-on-pay (Lieder & Fischer, 2011) and with a “successful corporate governance system” (Shleifer & Vishny, 1997, p. 769), the political and public discourse centred around “institutionally contested” (Sanders & Tuschke, 2007) pay systems, which manifest themselves in high income differentials between executives and shop-floor employees. In Russia, a country which is still building its corporate governance institutions, the discussion concentrated on corporate governance issues in SOEs, which, apparently, are still associated in this country with inefficiency.

The authors are aware of the limitations of this study, which shows just snapshots of media coverage and public discourse in specific newspapers over a specific period of time. However, our research design was instrumental in depicting the corporate governance narratives stimulated by such a historical event, broadly covered by the media worldwide as the Swiss vote on the Minder Initiative, in the countries studied. Our results indicated the path dependence (Licht, 2001) and lack of convergence (McCarthy & Puffer, 2008; Schmidt & Spindler, 2002) of corporate governance systems globally.

The results of the study may be of particular interest to both scholars and practitioners interested in executive pay and corporate governance dynamics in the countries studied. Moreover, the results of this study related to path dependence and the further development of corporate governance systems discussed herein can be used as a basis for further investigations building on alternative research methods, which would probe into the interrelation between path dependence, social norms and national corporate governance systems.

ENDNOTES

¹ Through the state-owned companies Svyazinvest and Vnesheconombank as well as the Federal Agency “Rosimushestvo” (Rostelekom, 2013).

² As of December 31, 2012, 27.31% of the company’s shares were held by Interros, 25.13% by Rusal and 4% by Metalloinvest companies (Norilsk Nickel, 2013).

³ For a discussion of self-reinforcing mechanisms see e.g. Deeg (2005) or Sydow, Schreyögg, and Koch (2009).

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