

1. Introduction

This study investigates the mechanism of *abandonment of practice*, defined as abandoning shareholder for stakeholder orientations, from the viewpoint of backlash against globalisation. Existing research has frequently examined the factors that influence the adoption from stakeholder to shareholder orientations, known as *adoption of practice*. They identify several state-, industry-, and firm-level factors as drivers that foster the adoption of practice (Sanders and Tuschke, 2007; Chizema and Shinozawa, 2012; Geng *et al.*, 2016). However, recent criticism of the excessive emphasis on shareholder primacy, sustainable development goals (SDGs), or better corporations called ‘B-corps’, and the Business Roundtable in 2019 suggested the abandonment of practice (Harrison *et al.*, 2020; Marquis, 2021; Kim and Schifeling, 2022). Despite the increased interest in the abandonment of practice, few studies have been conducted on such a movement. Thus, this research assumes that the backlash against globalisation drives firms to implement the abandonment of practice and aims to test the argument.

To test the factors driving the abandonment of practice, we rely on backlash theory, which is used as a research framework in political economics studies (Inglehart and Norris, 2017). Scholars have used the theory to investigate the causes of recent backlash movements, such as Brexit (Goodwin and Heath, 2016; Witt, 2019). Considering the similarities between the assumption of the theory to investigate the mechanism underlying the backlash against globalisation and the aim of this research, the backlash theory presents an optimal framework. Based on prior research, we understand the backlash theory from the concepts of ‘disparity of firm performance’ and ‘attachment to old rules’ (Witt, 2006; Anchordoguy, 2007; Inglehart and Norris, 2017). This study hypothesises that these concepts cause firms to implement the abandonment of practice (Butzbach *et al.*, 2020).

To test the hypotheses, this study focuses on the Japanese context. Japan has rapidly embraced shareholder orientation since the late 1990s. However, such hasty adoption of practice has caused economic inefficiency due to misalignment between the institutions that impel and impede globalisation, leading to movements that backlash against it. Therefore, Japan presents the ideal setting to investigate the backlash against globalisation. Relying on the Heckman two-stage estimation model, we find that the disparity of firm performance and attachment to old rules cause firms to implement the abandonment of practice. These findings are consistent with our prediction that the backlash against globalisation drives the abandonment of practice.

This work makes several contributions. Our study has a theoretical contribution because it involves theory testing (Colquitt and Zapata-Phelan, 2007). Additionally, it academically contributes to corporate governance studies in that we shed light on investigating a unique pattern of corporate governance transition, namely, the abandonment of practice. Furthermore, it holds another contribution by relying on the backlash theory to examine the drivers of such a unique transition pathway.

2. Literature review

2.1 Adoption and abandonment of corporate governance

Existing literature identifies diverse factors driving the adoption of practice across various levels of analysis, such as country, industry, and firm. The studies have found the effects of country-level drivers, such as legal revisions or the introduction of corporate governance codes, on the adoption of practice (Gourevitch and Shinn, 2007; Aguilera and Cuervo-Cazurra, 2009; Cuomo *et al.*, 2016). Moreover, Jain *et al.* (2017) found that industry-level drivers, such as industry codes, foster the adoption of practice. Further, firm-level factors, such as the increasing number of new shareholders or investors whose values differ from those of traditional shareholders, cross-listing of firms, and declining performance, drive the adoption of practice (Ahmadjian and Robbins, 2005;

Sanders and Tuschke, 2007; Buchanan *et al.*, 2012; Chizema and Shinozawa, 2012; Ahn and Wiersema, 2021).

However, scholars have largely overlooked the abandonment of practice. A few scholars have focused on the factors that facilitate corporate governance deviance (Aguilera *et al.*, 2018; Witt *et al.*, 2022). Aguilera *et al.* (2018, p. 1) provided a research framework to examine the factors enabling the persistence of ‘over-or under-conforming corporate governance that deviates from a generally accepted corporate governance practice’. Moreover, Witt *et al.* (2022) found that the sustenance of under-conforming corporate governance is enabled by a combination of institutional and organisational factors (e.g. the power of labour unions or firm size). These studies reveal the mechanism underlying the persistence of deviant corporate governance, but their research direction is different from our aim to explore the abandonment of practice. Little of the literature investigates the abandonment of practice. Research into the mechanism of the abandonment of practice is required.

2.2 Corporate governance practices

Prior literature identifies a change in only one component of corporate governance such as the introduction of stock option or changing the number of non-executive directors as a change in corporate governance (Sanders and Tuschke, 2007; Chizema and Shinozawa, 2012; Geng *et al.*, 2016). However, as corporate governance comprises numerous components (Aoki, 2001; Höpner, 2005), a change in one does not amount to a change in the entire corporate governance (Yoshikawa *et al.*, 2014; Witt *et al.*, 2022). Therefore, existing research insufficiently explains the recent growth of hybrid corporate governance in non-Anglo-American countries such as Japan (Aoki and Jackson, 2008; Buchanan and Deakin, 2009; Buchanan *et al.*, 2012).

To mitigate the concern, an increasing number of researchers have estimated the corporate governance practices using configuration or bundle approaches to capture the entire corporate governance (Gompers *et al.*, 2003; Larcker *et al.*, 2007; Lei and Song, 2012; Yoshikawa *et al.*, 2014). They estimate the corporate governance practices to test their effect on firm performance (Gompers *et al.*, 2003; Larcker *et al.*, 2007; Lei and Song, 2012). However, few studies utilise the corporate governance practices to investigate the mechanism of the transition. We estimate the corporate governance practices by combining multiple components of corporate governance and utilise them to explore the abandonment of practice.

2.3 The Japanese context

In the post-war period, the Japanese business system prioritised the interests of banks, partner firms, and employees over those of shareholders (Aoki, 2001). Following the collapse of the economic bubble in the early 1990s, the stagnation or bank crisis gave birth to forces that transformed Japanese corporate governance into one based on shareholder orientation (Vogel, 2006). The economic downturn cast doubt on the Japanese business system, and underperforming banks raised the presence of foreign shareholders and eventually, dismantled financial institutions including the main bank system or inter-firm networks such as cross-shareholding (Anchordoguy, 2007; Schaede, 2020). Firms voluntarily responded to the changing environment by introducing the executive officer system for separate decision-making and control or adding outside directors to the board (Buchanan and Deakin, 2009). The 1990s were a decade of firm-level enthusiasm for the adoption of practice (Vogel, 2006).

The firm-level movement in the 1990s was followed by the government-level movement from the 2000s onwards. The government revised the Commercial Code in 2003, formally permitting the optional introduction of firms with three committees – nomination, remuneration, and auditing –, although most firms retained the conventional system with auditors (Chizema and Shinozawa, 2012). In 2005, the government issued the company law (Gilson and Milhaupt, 2005).

Further, after Shinzo Abe assumed the post of Prime Minister in 2012, the government actively tackled corporate governance reform by issuing the Stewardship Code in 2014 and the Corporate Governance Code in 2015 (Miyajima and Saito, 2021). Miyajima and Saito (2021) argue that ‘Abenomics’, defined as a set of economic policies under Abe’s regime, has fostered firms to add outside directors to the board. These policies have accelerated the reform of corporate governance towards shareholder orientation.

Despite those dynamic attempts to reform corporate governance, their consequences were not as profound as expected because of the resistance of political institutions or forces for continuity (Gourevitch and Shinn, 2007; Sako and Kotosaka, 2012; Lechevalier, 2014). The Keidanren, the largest economic association in Japan, pressured the government to halt changes related to corporate governance reform (Gourevitch and Shinn, 2007). Moreover, path-dependent norms such as egalitarianism or societally coordinated adjustment impede or delay change of corporate governance, which provokes the backlash against shareholder primacy (Anchordoguy, 2007; Witt, 2006; Colpan and Yoshikawa, 2012). ‘These norms delayed or impeded institutional adjustment because they involved the cooperation or negotiation of many actors, such as employees, partner firms, banks or business associations, toward changing institutions’ (Witt, 2006, p 62). These clash between the forces for the adoption and abandonment of a globally standardised shareholder-oriented corporate governance has resulted in the coexistence of multiple forms of corporate governance (Sako and Kotosaka, 2012; Lechevalier, 2014).

Shareholder and stakeholder orientations are placed in opposite positions (Aoki and Jackson, 2008). Shareholder orientation prevailing in the context of globalisation normalises market-based finance and a job-oriented employment system, while stakeholder orientation normalised under post-war capitalism institutionalises bank-based finance and a membership-oriented employment system (Aoki and Jackson, 2008; Schaele, 2020). The lack of alignment between these two orientations drives firms to abandon the shareholder orientation due to inadequate complementarity with path-dependent institutions representing the stakeholder orientation (Jackson and Miyajima, 2007).

We can observe the movement around the executive officer system, which involves splitting decision-making and control functions, in Rohto Pharmaceutical, one of the largest firms in the industry, as an example of abandonment of practice in Japan. The firm introduced the executive officer system in 2002 following globalisation (Rohto, 2016). The executive officer system, considered a job-type management system, led to misalignment with other conventional membership-type institutions, resulting in underperformance. Consequently, the firm chose to abolish the executive officer system, despite the ongoing pressure from vocal shareholders to separate decision-making and control (Sakai, 2021). The Rohto case demonstrates the actual occurrence of the backlash against globalisation in Japan. Therefore, the coexistence of multiple corporate governance and recent backlash movements against shareholder primacy make the country an ideal setting to explore the abandonment of practice.

3. Hypotheses Development

3.1 *The backlash at the individual level*

Backlash theory has been used to investigate the mechanism underlying de-globalisation movements such as Brexit (Goodwin and Heath 2016; Inglehart and Norris, 2017; Norris and Inglehart, 2019). Inglehart and Norris (2017, p. 443) indicate that ‘the backlash theory explains why given individuals support populist authoritarian movements or movement of de-globalisation’. Inglehart and Norris (2017) proposed that economic inequality caused discontent among people with low incomes with globalisation and the elites who benefit from globalisation, resulting in the backlash against ongoing globalisation. Moreover, Goodwin and Heath (2016) and Norris and Inglehart (2019) found the influx of immigrants as a driver that foster de-globalisation. Those

studies indicate that individuals push back against globalisation because they feel left behind or threatened by unfamiliar cultures or values. The existing literature largely investigates the mechanism of backlash against globalisation at the individual level. However, the theory can be extended to investigate firms' movements of backlash against a globalised practice (Butzbach *et al.*, 2020).

3.2 The backlash at the firm level

Backlash theory can be understood as predicting the pushback of firms if they (a) are unsuccessful under the new rules of globalisation or (b) reject the new rules of the game. For clarification, we conceptualise '(a) firms are unsuccessful under the new rules of globalisation' as the *disparity of firm performance* and '(b) firms reject the new rules of the game' as the *attachment to old rules*, respectively. In the following section, we introduce the hypotheses that the disparity of firm performance and attachment to old rules cause firms that have adopted shareholder orientation to implement the abandonment of practice due to their backlash against globalisation.

3.2.1 Disparity of firm performance.

Globalisation worsens the disparity in firm performance among firms. That is because 'globalisation pushes sales toward the most productive firms in each industry, product market concentration will rise as industries become increasingly dominated by the successful ones, called superstar firms' (Autor *et al.*, 2020, p. 645). Market share is concentrated in the hands of a small number of firms; however, many other firms are left in the race (Autor *et al.*, 2017). Hence, globalisation has led to the emergence of many unsuccessful firms and a few successful firms in each industry (Meyer, 2017). Successful firms that have benefited from globalisation are satisfied with the current business practice institutionalised in a globalised context and, consequently, continue with it. Contrastingly, underperforming firms left behind in a globalised race backlash against the practice.

Applying the concept of the disparity of firm performance to our research setting, successful firms that have benefited from globalisation are satisfied with shareholder orientation and continue to comply with it. In contrast, underperforming firms that have poorly benefited from globalisation backlash against shareholder orientation and implement the abandonment of practice. Therefore, it is predicted that underperformers among those which have adopted shareholder orientation backlash against globalisation and implement the abandonment of practice; in contrast, highly performing firms which have benefited from globalisation continue to comply with shareholder orientation. This prediction leads to the following hypothesis:

Hypothesis 1: Among firms adopting shareholder orientation, underperforming firms are likely to abandon the shareholder orientation for a stakeholder orientation; contrastingly, those highly performing firms are unlikely to make this change.

3.2.2 Attachment to old rules.

The attachment to old rules concerns the extent of reliance on existing institutions. Japanese firms have apparently adopted shareholder orientation since the early 1990s to follow the movement of globalisation; however, their substance remains attached to stakeholder orientation prevailing in the post-war period in Japan (Witt, 2006; Anchordoguy, 2007). Firms' adoption of shareholder orientation following the recent wave of globalisation could be quickly overturned if they are attached to a bank-centred financial institution or inter-firm network that underlies the post-war Japanese stakeholder capitalism (Jackson and Miyajima, 2007). This is because the bank-centred financial institution or inter-firm network that evolved in complementarity to economic or political institutions in the post-war period are unlikely to fit into institutions imported as a part of globalisation from Anglo-American states. The incongruity among path-dependent and emerging institutions causes fatigue, leading to the abandonment of newly adopted institutions (Greve, 2011). Therefore, among firms adopting shareholder orientation following globalisation, those attached to the bank-centred

financial institution or inter-firm network will implement the abandonment of practice. This prediction leads to the following hypotheses:

Hypothesis 2: Among firms adopting shareholder orientation, those attached to bank-centred financial institution are likely to abandon shareholder orientation for stakeholder orientation.

Hypothesis 3: Among firms adopting shareholder orientation, those attached to inter-firm network are likely to abandon shareholder orientation for stakeholder orientation.

4. Methods

4.1 Sample and data

The research sample comprises all listed Japanese firms from 2005, when the Commercial Code was revised, to 2018. Banks, life insurance firms, and firms with missing data were removed from the original sample while compiling the dataset. Further, we reduced the sample to the firms that experienced the abandonment of practice. Therefore, the final number of firm-year observations was 2235.

The data used to estimate the corporate governance practices came from the Nikkei NEEDS Corporate governance evaluation system published by the Nikkei (Nikkei NEEDS CGES), which is one of the most prestigious business newspaper publishers in Japan. The data on firm performance or reliance on the bank-centred financial institution or inter-firm network were obtained from S&P Capital IQ and the Nikkei NEEDS CGES. Corporate attributes, such as the age of a firm or ownership were from S&P Capital IQ.

4.2 Dependent variable

This study examines the drivers of the abandonment of practice. Referring to Gompers *et al.* (2003), Larcker *et al.* (2007) and Lei and Song (2012), we estimate the corporate governance practices using the three binary components: *firms with the committee system*, *separation of decision-making and control*, and *independence and heterogeneity of board*. These components are considered significant for understanding corporate governance (Gompers *et al.*, 2003; Aoki and Jackson, 2008).

The first binary component is generated for *firms with the committee system* (Chizema and Shinozawa, 2012). This structure was formally introduced by revising the 2003 Commercial Code (Buchanan and Deakin, 2009). The revised law allows firms to choose either a firm with the committee system or a conventional structure with auditors (Gourevitch and Shinn, 2007). Firms' decisions on whether to introduce the committee system or adhere to the conventional structure with auditors signal their attitudes toward corporate governance reform (Gilson and Milhaupt, 2005). Firms introducing the committee system reform their corporate governance in the direction of shareholder orientation, whereas those with the conventional structure with auditors maintain the stakeholder one (Gourevitch and Shinn, 2007). We create *firms with the committee system*, which is coded as 1 for the firms with the committee system and 0 otherwise.

The second binary component is generated for the *separation of control and decision-making*. After Sony informally introduced the executive officer system in 1997, it rapidly diffused among listed firms (Aoki, 2004; Buchanan and Deakin, 2009). The executive officer system splits decision-making and control functions by leaving supervisory authority to the board and delegating responsibility for execution to the executive officers (Aoki and Jackson, 2008). However, the introduction is not an optimal factor for measuring the separation of decision-making and control functions because many directors concurrently assume the position of executive officers (Aoki, 2004). Following Ahmadjian *et al.* (2013), we operationalise the separation of decision-making and control functions by estimating the percentage of directors who do not concurrently assume the

position of executive officers among the total number of board members. The estimated value is then decomposed into above- and below-median ratios. Finally, the binary is generated and coded as 1 if a firm has an above-median ratio of directors who do not concurrently assume the position of executive officers and 0 otherwise.

The third binary component is generated for the *independence and heterogeneity of board*. This is usually measured as the percentage of outside directors who have never worked for the firm among the total number of board members (Colpan and Yoshikawa, 2012). Adams (2017, p. 317) defines outside directors as ‘either independent directors, that is, directors with no business, family, or interlock connections to the firm or affiliated (or grey) directors, who possess some formal connection to the firm’. Referring to the literature, we define directors from the main bank or partner firms as affiliate directors. This is because the main bank refers to the largest lender and substantial shareholder of the firm, and partner firms refer to those interrelated through informal and formal channels, such as cross-shareholding, called *Keiretsu*. It demonstrates the interest of the main bank or partner firms in the focal firm. Hence, we classified board members into the following categories: 1) Insiders, or —those who were internally promoted; 2) affiliated directors, or —directors dispatched from the main bank or partner firms; and 3) independent directors, or those who are neither insiders nor affiliated directors (Colpan and Yoshikawa, 2012; Adams, 2017; Neville *et al.*, 2019).

In the post-war period, the boards of Japanese firms consisted of insiders and affiliated directors. After the 1990s when the debate over corporate governance reform began, the growth of ownership held by active shareholders, such as foreign or institutional investors, who are proponents of changing corporate governance, was observed (Ahmadjian and Robbins, 2005). Greater ownership by activists, pressures firms to employ independent directors and increases the heterogeneity of boards composed of insiders and affiliated and independent directors (Colpan *et al.*, 2011; Miyajima and Saito, 2021). Independent directors represent the interests of active shareholders and pressure CEOs and managers to reform corporate governance. Gedajlovic *et al.* (2005) find that greater heterogeneity among directors positively affects corporate governance reform. These findings suggest that board heterogeneity represents the interests of shareholders represented by each director and the board’s independence. The greater the heterogeneity of the board, the more diverse shareholders’ interests within the boardroom (Colpan *et al.*, 2011; Colpan and Yoshikawa, 2012). This results in greater power on the board and an eventual increase in its independence (Jo and Harjoto, 2011; Adams, 2017). Adams (2017) stresses that diversity among directors fosters a board’s capability to gather valuable information and, consequently raises its power over the CEO or managers. Therefore, board heterogeneity, representing the interests of shareholders, reflects the board’s independence and diversity (Colpan *et al.*, 2011). Hence, using board heterogeneity to estimate the corporate governance practices is considered valid.

We estimated the extent of heterogeneity in each category of directors among the total number of board members based on the Herfindahl–Hirschman Index as follows (Colpan and Yoshikawa, 2012):

$$1 - \sum_{i=1}^3 p_i^2,$$

where p_i is the proportion of directors on the board and is categorised as the i th type. The greater the estimated value, the more independent and heterogeneous the board. The value representing the independence and heterogeneity of board members is decomposed into above- and below-medians. Finally, the binary variable is coded as 1 if the board of directors’ independence and heterogeneity are above the median value, and 0 otherwise.

Referring to Gompers *et al.* (2003), we summed the three binary components with equal weight to estimate the corporate governance practices. Larcker *et al.* (2007) and Lei and Song

(2012) used the principal component analysis to combine corporate governance components, owing to their inclusion of numerical and binary variables. Considering the features of our corporate governance components, the sum of the binary components through equal weight is optimal. The corporate governance practices range from 0 to 3. Based on the feature of each corporate governance practice, the Japanese, Japanese hybrid, US hybrid, and US practices are designated as 0, 1, 2, and 3, respectively, which are arranged in order from stakeholder orientation to shareholder orientation.

The Japanese practice has a conventional system with auditors, an obscured separation of decision-making and control, and a dependent and homogenous board. Firms adopting this practice either slightly reform corporate governance or do not. This practice is consistent with the Japanese stakeholder-oriented corporate governance, which features ineffective monitoring mechanism due to entrenched trust in insiders, such as employees (Yoshikawa *et al.*, 2007; Colpan and Yoshikawa, 2012). Moreover, the Japanese hybrid practice has a conventional system with auditors and either a high-level separation of decision-making and control or a high-level independence and heterogeneity of the board. This demonstrates the gradual reform of internal monitoring mechanism by either developing an executive officer system or furthering the board's independence (Yoshikawa *et al.*, 2007).

Conversely, the US practice has the committee system, a high-level separation of decision-making and control, and an independent and heterogenous board. Rapid corporate governance reform in the direction of shareholder orientation can be identified if a firm features the US practice (Chizema and Shinozawa, 2012). Lastly, the US hybrid practice presents a conventional system with auditors, a high-level separation of decision-making and control, and a high-level independence and heterogeneity of the board. Firms with the US hybrid practice do not introduce the committee system, but voluntarily strengthen the internal control mechanism (Gilson and Milhaupt, 2005).

What differentiates the US practice from the other three is of whether firms introduce the committee system. Firms that have introduced the committee system are featured as having the US practice. Hence, *firms with the committee system* serves as a weight component in aggregating the three corporate governance components into the practices.

To identify the differences among the Japanese, Japanese hybrid, and US hybrid practices, we can see the example of Toyota Motor Corporation. Toyota used the Japanese practice from 2005 to 2012 because it had a low-level separation of decision-making and control, and a low-level independence and heterogeneity of the board without introducing the committee system. In 2013, Toyota adopted the Japanese hybrid practice because the firm had a high-level independence and heterogeneity of the board but a low-level separation of decision-making and control without the committee system. This demonstrates the effort of the firm to add outside directors to the board. In the subsequent years, Toyota adopted the US hybrid practice due to their efforts to separate decision-making and control and made its board independent and heterogenous without adopting the committee system. Thus, the boundaries among the three practices can be identified.

Considering the features of the corporate governance practices, the US hybrid practice is regarded as structurally proximate to a globally standard practice that stresses the separation of decision-making and control and the independence and heterogeneity of the board (Adams, 2017; Witt *et al.*, 2022). Furthermore, the US practice can be regarded as over-conformity (Aguilera *et al.*, 2018). Thus, we define the US hybrid practice as representing shareholder orientation and the Japanese one as a proxy for stakeholder orientation. This study defines the transition from the US hybrid to Japanese practices as the abandonment of practice. We set the firms that abandon the US hybrid for Japanese practices as the sample for analysis.

We estimated the duration of time before the abandonment of the US hybrid for Japanese practices occurs and operationalised it as *duration*. *Duration* is often used as a proxy for the possibility of an event of interest happening (Greve, 1995; Shi *et al.*, 2018; Shin *et al.*, 2022). A shorter *duration* indicates that the event occurs within a short period, and it is interpreted to be

identical with the greater probability of the event occurring. Hence, shorter *duration* demonstrates the greater possibility of the abandonment of the US hybrid for Japanese practices occurring, in contrast, longer *duration* demonstrates that firms continue with the US hybrid practice.

INSERT FIGURE 1 AROUND HERE

Figure 1 illustrates the breakdown of the four corporate governance practices from 2005 to 2018. The number of firms adopting the US practice remains consistently low throughout the period; in contrast, the number of firms embracing the Japanese hybrid remains consistently high. Additionally, the figure shows that the number of firms maintaining the Japanese practice steadily decreased. Finally, the growth in the number of firms adopting the US hybrid practice can be seen during the years of observation.

4.3 Independent variables

Backlash theory is understood from the disparity of firm performance and attachment to old rules. We operationalise *performance deviation* as a proxy for the disparity of firm performance, and *banking finance* and *network centrality* to represent the attachment to old rules. The methods by which the three variables are operationalised are presented below.

Performance deviation, which tests Hypothesis 1, is operationalised by referring to performance feedback theory (Greve, 2003; Uchida, 2023). We set the industry-median performance value as the benchmark to recognise high- or low-performing firms (Greve, 2003; Audia and Brion, 2007; Bromiley and Harris, 2014; Uchida, 2023). Firms struggling with performance value below the industry median are discontented with globalisation and, consequently implement the abandonment of practice, while those whose performance value exceeds the industry-median benefit from globalisation and continue with shareholder orientation. We use return-on-sales (ROS) as an indicator to measure firm performance because Japanese firms stress their sales over profitability and, thus, respond sensitively to sales-based performance (Schaeede, 2020). This study estimates each firm's ROS median minus its industry-median value and operationalises the estimated value as *performance deviation*. Corresponding to Hypothesis 1, this research posits that among firms adopting the US hybrid practice, those with lower *performance deviation* abandon the US hybrid for the Japanese practices in a shorter *duration*: in contrast, the firms with greater *performance deviation* took a longer *duration* before the abandonment of the US hybrid for Japanese practices happens.

Banking finance, which is used to test Hypothesis 2 is measured by calculating the percentage of debt from banks among the total amount of borrowings in each firm (Arikawa and Miyajima, 2007; Aoki and Jackson, 2008). This represents the extent of relying on bank-centred financial institution. The greater the percentage, the more the firm is webbed into bank-centred financial institution. Thus, we operationalise this percentage as *banking finance*. Corresponding to Hypothesis 2, this study hypothesises that among firms adopting the US hybrid practice, those with greater *banking finance* abandon the US hybrid for Japanese practices in a shorter *duration*.

Network centrality, which aims to examine Hypothesis 3, is operationalised by measuring the centrality of inter-firm network formed through interlocking directorates, defined as directors who concurrently serve as board members of multiple firms. Previous studies used the degree of network centrality to represent the embeddedness of a firm in inter-firm network (Ahuja, 2000). It illustrates that the greater the degree, the more deeply the firm is embedded in inter-firm network. Thus, we operationalise the degree of network centrality as *network centrality*. Corresponding to Hypothesis 3, we predict that among firms adopting the US hybrid practice, those with greater *network centrality* abandon the US hybrid for Japanese practices in a shorter *duration*.

4.4 Control variables

Some variables are added to mitigate the effects of elements other than the independent variables. This study measures corporate age and size by using the natural logarithms of corporate age (*log of corporate age*) and sales volume (*log of corporate size*). The ratios of equities held by the main banks (*bank ownership*), foreign investors (*foreign ownership*), stable shareholders, such as partner firms (*stable ownership*), and blockholders which own more than 15% of total common stock (*block ownership*) are included as variables to control for the impact of ownership. We also control for imitation behaviour. The imitation variables represent firms' tendency to either imitate others, thereby encouraging the abandonment of practices, or to imitate practices that impede such abandonment. Imitation to impel the abandonment of practice means imitating the transition to the Japanese practice by other firms with similar features, of larger size, or better performance (Lieberman and Asaba, 2006). We include the three variables as controls for these imitation effects: the ratio of firms that adopt the Japanese practice to the total number of firms in each industry (*industry bandwagon JPN*), the percentage of firms introducing the Japanese practice among the 10 largest firms in each industry (*top10 size JPN*), and the proportion of firms that adopt the Japanese practice among the 75 most profitable firms in each industry (*performance success JPN*).

Conversely, imitation to impede the abandonment of practice means following the adoption of the US hybrid practice by other firms with similar features, of larger size or better performance (Lieberman and Asaba, 2006). The following variables as controls for the imitation impact were added: the ratio of firms that adopt the US hybrid practice to the total number of firms in each industry (*industry bandwagon USHY*), the percentage of firms introducing the US hybrid practice among the 10 largest firms in each industry (*top10 size USHY*), and the proportion of firms that adopted the US hybrid practice among the 75 most profitable firms in each industry (*performance success USHY*).

Return on equity (*performance*) was controlled. Finally, *industry dummy* based on the 2-digit Nikkei industry classification was included. Yet, *year dummy* was not included because the Cox method which sets the time-related variable as the dependent variable is used for the analysis (Cader and Leatherman, 2011).

4.5 Econometric model

This study utilizes the Heckman two-stage estimation model to address concerns about sample selection bias, arising from restricting our sample to firms that adopted the US hybrid practice (Oe & Mitsuhashi, 2013; Uchida, 2023). In the first stage, we employed the random effect probit method to estimate λ , defined as the likelihood of firms not implementing the abandonment of practice. The dependent variable is a binary variable, coded as 1 if a firm adopts from Japanese to US hybrid practices, and 0 otherwise. The independent variables consist of imitation-related factors. The estimation model is outlined as follows:

$$y^* = \alpha + \beta_1 x_1 + \dots + \beta_k x_k + e \quad (1)$$

$$y = 1 \quad (y^* = 1: \text{adoption})$$

$$0 \quad (y^* = 0: \text{not adoption})$$

where α is a coefficient, e is the residual, and x_s are the explaining variables: *log of firm age*, *log of firm size*, *performance*, *bank ownership*, *foreign ownership*, *stable ownership*, *block ownership*, *industry bandwagon USHY*, *top10 size USHY*, *performance success USHY*, *industry bandwagon JPN*, *top10 size JPN*, and *performance success JPN*.

The second stage examines the effects of *performance deviation*, *banking finance*, and *network centrality* on *duration* by using the Cox method. The method is a popular semiparametric approach for analysing a longitudinal and survival data with time-varying covariates, while controlling for time dependence (Rabe-Hesketh and Skrondal, 2012). Further, it is effective for

addressing the issue of right censoring, namely, the event of interest never happens throughout observation period (Greve, 1995).

The Cox method calculates the hazard rate for the i th individual (Shin *et al.*, 2022) as follows:

$$h_i(t) = h_0(t) \exp(\beta_1 X_{1,i} + \dots + \beta_k X_{k,i} + \lambda),$$

where $h_i(t)$ is the hazard ratio of abandonment of practice at time t , $h_0(t)$ is the baseline hazard, $\exp(X_{k,i})$ is the regression coefficient of time-varying covariates, and λ is *Lambda* (Cox, 1972).

Additionally, the adjusted Poisson method was used to check the robustness of our empirical results. This is estimated using the following equation:

$$\ln(u_{si}) = \ln(t_{si}) + \alpha_1 + \alpha_2 d_{2si} + \alpha_3 d_{3si} + \dots + \alpha_k d_{ksi} + \lambda,$$

where u_{si} is the mean parameter of the Poisson distribution, t_{si} indicates the time at risk in interval s for firm i , and d_{ksi} represents a dummy variable for intervals 2 to k . Although the event could only occur once in each episode, I counted the number of events that occurred for each combination of interval and covariate values (Rabe-Hesketh and Skrondal, 2012).

As some firms had multiple observations and events during the observation period, we clustered the observations at the firm level and used robust standard errors clustered by firm to correct for a lack of independence in all the models (Rabe-Hesleth and Skrondal, 2012).

5. Empirical results

5.1 Descriptive statistics and correlations

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Table 1 presents the descriptive statistics and correlations among the variables. *Foreign ownership* is positively correlated with *log of firm age*, *log of firm size*, and *network centrality*. *Stable ownership* is negatively correlated with these variables. Moreover, we find negative correlations between *stable ownership*, *log of firm age*, *log of firm size* on the one hand, and *network centrality* on the other.

We also verified the variance inflation factor (VIF) to test for multicollinearity. Table 1 shows that the VIF value ranges from 1.01 to 2.70, with a mean value of 1.70. The VIF values are below the acceptable threshold of 4.00 (Greene, 2003). Thus, the concerns about multicollinearity were alleviated. Accordingly, we ran the estimation model.

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5.2 Results of using the random effect probit and Cox proportional hazard methods

Table 2 presents the results of the random effect probit method to estimate *Lambda* and Cox one to examine the impact of *performance deviation*, *banking finance*, and *network centrality* on *duration*.

Model 1 comprises the control variables. It provides the significant and positive effect of *log of firm size* on *adoption* ($\beta = 0.06$, $p < 0.05$). Moreover, a significant and negative association between *top10 size JPN* and *adoption* is presented ($\beta = -0.01$, $p < 0.05$).

Models 2-6 present the outcomes of the Cox method. Model 2 includes only the control variables and *Lambda*. Model 3 adds *performance deviation* to the existing variables. Model 4 includes *banking finance* in the existing model. Model 5 adds *network centrality* to the existing model. Finally, Model 6 comprises a full model.

Models 3-6 provide a significant and positive impact of *performance deviation* on *duration* ($\beta = 0.16$, $p < 0.001$; $\beta = 0.16$, $p < 0.001$; $\beta = 0.17$, $p < 0.001$; $\beta = 0.16$, $p < 0.001$). Moreover, we

find a significant and negative relationship between *banking finance* and *duration* in Models 4 and 6 ($\beta = -0.02$, $p < 0.05$; $\beta = -0.02$, $p < 0.1$). Further, a significant and negative effect of *network centrality* on *duration* is presented in Models 5 and 6 ($\beta = -579.70$, $p < 0.05$; $\beta = -532.55$, $p < 0.1$).

Regarding the control variables, we find some interesting results. A significant and positive relationship between *bank ownership* and *duration* is observed in Models 2-6 ($\beta = 0.29$, $p < 0.05$; $\beta = 0.37$, $p < 0.05$; $\beta = 0.41$, $p < 0.01$; $\beta = 0.38$, $p < 0.05$; $\beta = 0.42$, $p < 0.01$). Moreover, we find a significant and positive impact of *foreign ownership* on *duration* in Models 2-6 ($\beta = 0.05$, $p < 0.001$; $\beta = 0.06$, $p < 0.001$; $\beta = 0.06$, $p < 0.001$; $\beta = 0.06$, $p < 0.001$; $\beta = 0.06$, $p < 0.001$). As expected, *lambda* has a significant and positive effect on *duration* in Models 2-6 ($\beta = 1.84$, $p < 0.1$; $\beta = 2.03$, $p < 0.1$; $\beta = 1.96$, $p < 0.1$; $\beta = 2.06$, $p < 0.1$; $\beta = 1.99$, $p < 0.1$).

6. Ex-post analysis

To check the robustness of our empirical results, we used the adjusted Poisson method. Table 3 presents the outcome.

INSERT TABLE 3 AROUND HERE

Model 7 includes only the selected interval variables for the adjusted Poisson method. Model 8 reports the empirical outcome. It presents a significant and positive relationship between *performance deviation* and *duration* ($\beta = 0.15$, $p < 0.001$). A significant and negative impact of *banking finance* on *duration* is found ($\beta = -0.02$, $p < 0.05$). Further, we find a significant and negative association between *network centrality* and *duration* ($\beta = -504.01$, $p < 0.05$). Those empirical evidence of the effects of *performance deviation*, *banking finance*, and *network centrality* on *duration* is consistent with the result of using the Cox method. Therefore, our empirical outcome is regarded as robust.

7. Discussion and conclusion

This study examined the mechanism underlying the abandonment of shareholder for stakeholder orientations, drawing on backlash theory. We hypothesised that the backlash against a globally standardised shareholder orientation, stemming from disparities of firm performance and attachment to old rules, facilitates the abandonment of practice.

Our empirical outcomes supported the hypotheses. We discovered that the disparity of firm performance and attachment to old rules facilitate firms to backlash against globalisation and, consequently, to implement the abandonment of practice. This finding was consistent with the backlash theory. Therefore, this research which used the backlash theory to identify the drivers to foster the abandonment of practice is regarded as a ‘theory testing’ study among the theoretical contributions that Colquitt and Zapata-Phelan (2007) provided.

Moreover, this study contributes to the studies on corporate governance. Firstly, it is one of the few studies focusing on the abandonment of practice. Our work investigates the corporate governance transition differently from the often-focused movement. Thus, this research provides valuable insights into the study of corporate governance transition.

Secondly, this work is unique because we used the backlash theory to investigate the abandonment of practice which has insufficiently been explored. We empirically found a significant influence of *performance deviation*, which serves as a proxy for the extent of firms’ discontent with shareholder orientation, and an insignificant impact of *performance success*, referred to as a proxy for firms’ desire to improve or restore their performance by imitating profitable others. This demonstrates that firms’ discontentment with globalisation may trigger the abandonment of a certain type of corporate governance. Previous studies suggest that the desire to restore or improve the performance of firms motivates them to reform their corporate governance, but insufficiently

examines the impact of firms' discontentment on corporate governance transition. Therefore, our finding that firms' discontentment with globalisation coming with economic disparity motivates them to backlash against their current practice will have an important implication for studies on corporate governance transition.

Additionally, this study sheds light on the role of path-dependent institutions to discourage firms from institutionalising a new form of corporate governance. Our finding that deeply embedded institutions, specifically financial institutions and inter-firm networks, serve as the backlash against shareholder orientation suggests the resilience of these institutions in reverting to previously normalised business practices. It demonstrates that while convergence in corporate governance among countries may be temporarily achieved, institutions act as the forces pulling back towards the pre-convergence divergent state, thereby sustaining differences in corporate governance among countries. Therefore, the finding that institutions serve as the backlash against a globalised practice holds a significant implication for comparative corporate governance research.

Furthermore, this study makes practical contributions. The backlash against practices that prevailed during the era of globalisation is gaining momentum worldwide (Harrison *et al.*, 2020). It would be meaningful if firms in Anglo-American states emphasised shareholders' interests and, willingly added the interests of stakeholders to their corporate management. However, Japanese firms have been far behind their Anglo-American counterparts in terms of increasing shareholder value. Moreover, we found that poor performance or institutional contexts, such as financial institution or inter-firm networks, encourage firms to implement the abandonment of shareholder-oriented practice. This suggests that Japanese firms' movement of abandoning their shareholder for stakeholder orientations might have merely been caused by the path-dependent relationship which they are deeply embedded in. In other words, the movement of backlash against a globally standardised practice could have been motivated not by the desire to fulfil their social responsibility but by wanting to avoid being pressured by active investors. If so, we should carefully scrutinize the motivation of Japanese firms to abandon their shareholder for stakeholder orientations.

This study has limitations. First, the specific results cannot be generalised because of the exclusive focus on Japanese firms. Institutions in Japan are regarded as deeply embedded in the context (Jackson and Miyajima, 2007). Such institutions prevent firms from reforming their corporate governance (Buchanan *et al.*, 2012). The influence of institutions may be greater in the country than in other countries. Thus, further research is required to test our findings in other contexts.

Second, this research has had a limited focus on firms' reasons for the adoption of practice before the abandonment of practice. We controlled the variables representing imitation behaviour as motivation for the adoption of practice. However, the influence of other reasons for the adoption of practice should be examined.

Future research may analyse the performance implications of the abandonment of practice. Whether the firms that implemented the abandonment of practice owing to lower performance improve their performance may be interesting. Researchers may examine firms that cannot restore their performance following the abandonment of practice. It would be interesting whether firms that perform poorly after the abandonment of practice discard stakeholder orientation and reintroduce shareholder orientation.

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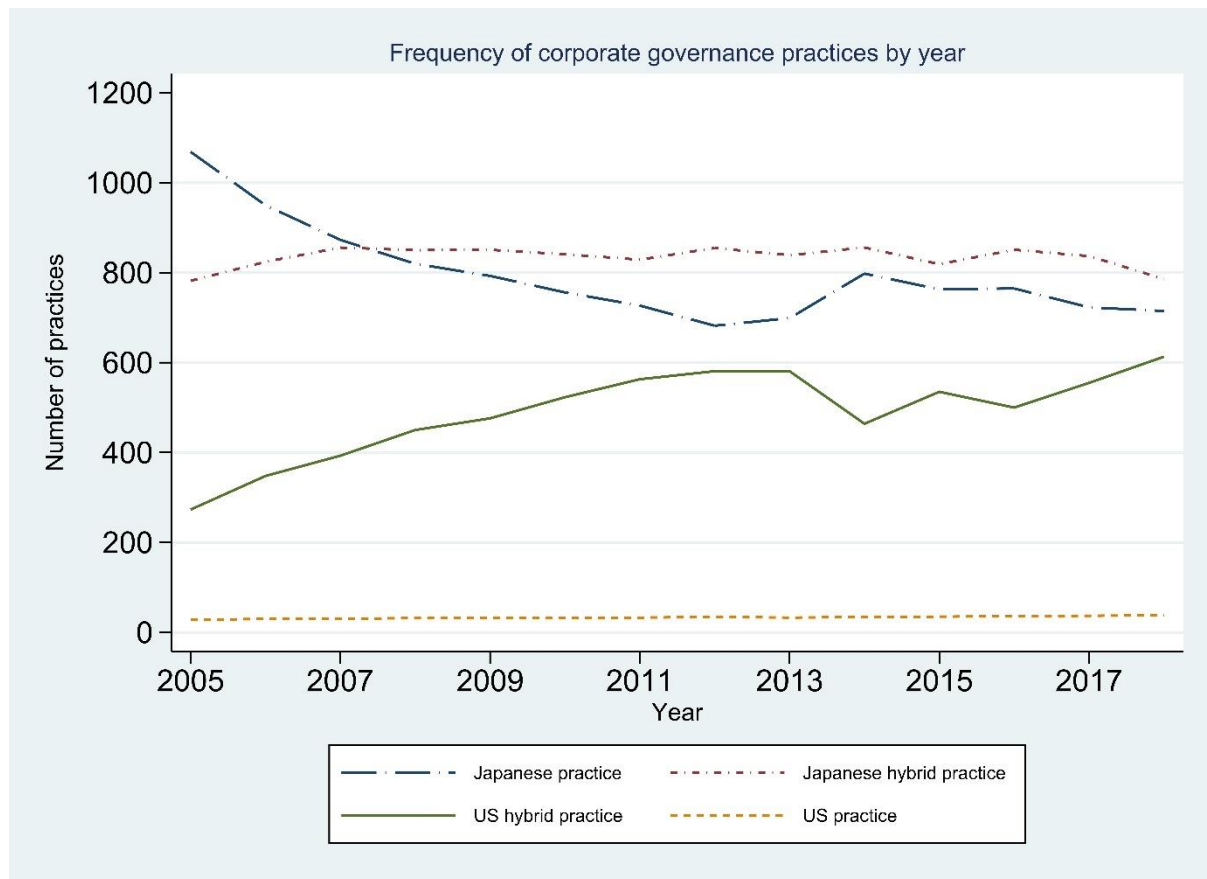
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Figure 1 Breakdown of corporate governance practices between 2005 and 2018 in Japan



Notes: n = 2152

Y axis denotes the number of companies adopting each of the corporate governance practices.

X axis denotes years, spanning 2005–2018.

Table 1 Descriptive statistics and correlation matrix

Variables	VIF	Mean	Std. Dev.	Min	Max	1	2	3	4	5	6
(1) Firm age	1.11	3.85	0.61	0.00	5.23	1.00					
(2) Firm size	2.08	10.69	1.71	2.08	17.16	0.15	1.00				
(3) Bank ownership	1.09	3.05	1.54	0.01	28.50	0.06	-0.20	1.00			
(4) Foreign ownership	1.86	7.91	11.04	0.00	86.63	0.12	0.62	-0.19	1.00		
(5) Stable ownership	1.51	42.34	17.70	0.00	100.00	-0.22	-0.48	0.11	-0.48	1.00	
(6) Bank network US hybrid	1.43	27.40	11.69	0.00	60.00	0.12	0.22	-0.16	0.12	-0.22	1.00
(7) Industry bandwagon US hybrid	2.73	22.21	7.59	0.00	100.00	0.06	-0.01	-0.01	-0.03	-0.09	0.20
(8) Top 10 size US hybrid	1.60	52.58	20.25	0.00	100.00	0.09	-0.11	0.06	0.00	-0.07	0.13
(9) Performance success US hybrid	1.24	20.98	14.57	0.00	60.00	0.09	0.01	0.04	-0.07	-0.06	0.08
(10) Industry bandwagon JPN	3.17	37.31	9.54	0.00	100.00	0.01	0.06	0.03	0.05	0.06	-0.18
(11) Bank network JPN	1.31	37.06	11.55	0.00	100.00	-0.07	-0.11	0.11	-0.09	0.16	-0.45
(12) Top10 size JPN	1.45	17.43	13.07	0.00	80.00	0.01	-0.06	-0.01	-0.10	0.09	0.00
(13) Performance success JPN	2.11	32.66	12.71	0.00	64.00	-0.06	-0.02	0.03	0.02	0.10	-0.24
(14) Performance	1.01	-1.20	499.85	-78029.16	2725.00	0.00	-0.02	0.03	0.00	-0.02	-0.02
(15) Performance deviation	1.09	-0.46	7.94	-45.41	146.46	0.05	-0.06	-0.02	-0.13	0.07	-0.02
(16) Banking finance	1.06	35.81	17.98	0.05	98.83	-0.07	0.00	0.04	-0.10	-0.01	-0.03
(17) Network centrality	1.18	0.00	0.00	0.00	0.01	0.09	0.35	-0.06	0.18	-0.16	0.00

	7	8	9	10	11	12	13	14	15	16	17
7	1.00										
8	0.26	1.00									
9	0.40	0.20	1.00								
10	-0.75	-0.10	-0.31	1.00							
11	-0.23	-0.09	-0.10	0.17	1.00						
12	-0.33	-0.38	-0.14	0.32	0.05	1.00					
13	-0.40	0.28	-0.12	0.57	0.21	-0.08	1.00				
14	-0.02	0.01	0.00	0.02	-0.02	-0.01	0.03	1.00			
15	-0.07	0.01	-0.03	0.11	0.05	0.15	0.12	-0.04	1.00		
16	-0.06	-0.03	-0.02	0.03	0.00	0.06	-0.08	0.01	0.08	1.00	
17	-0.02	-0.11	0.04	-0.02	0.05	0.01	-0.05	0.01	0.09	0.04	1.00

Table 2: Results of Cox proportional, random effect probit, and Cox proportional with inverse mills ratio (Heckman two-stage estimation model)

Method	Cox	RE probit	Cox with the inverse mills ratio				
Variables	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7
Log of firm age	0.48 [0.50]	0.03 [0.07]	0.07 [0.36]	0.22 [0.44]	0.33 [0.44]	0.30 [0.46]	0.47 [0.49]
Log of firm size	0.31* [0.15]	0.06* [0.03]	0.24+ [0.12]	0.22+ [0.12]	0.24+ [0.13]	0.31* [0.12]	0.35* [0.14]
Bank ownership	0.34* [0.15]	0.03+ [0.02]	0.15** [0.05]	0.32* [0.13]	0.41** [0.16]	0.33* [0.13]	0.41** [0.16]
Foreign ownership	0.03* [0.02]	0.00 [0.00]	0.06*** [0.01]	0.06*** [0.01]	0.05** [0.02]	0.06*** [0.01]	0.05*** [0.02]
Stable ownership	0.03* [0.01]	-0.00 [0.00]	0.00 [0.01]	0.01 [0.01]	0.02 [0.01]	0.01 [0.01]	0.02+ [0.01]
Bank network ushybrid	0.01 [0.02]	0.00 [0.00]	0.00 [0.02]	0.00 [0.02]	-0.01 [0.02]	0.00 [0.02]	-0.01 [0.02]
Industry bandwagon ushybrid	-0.10 [0.06]	0.01 [0.00]	-0.03 [0.04]	-0.04 [0.04]	-0.04 [0.05]	-0.05 [0.04]	-0.05 [0.05]
Top10 size ushybrid	-0.01 [0.02]	0.00 [0.00]	0.01 [0.02]	0.01 [0.02]	-0.01 [0.02]	0.01 [0.02]	-0.01 [0.02]
Performance success ushybrid	0.00 [0.02]	-0.00 [0.00]	0.01 [0.02]	0.01 [0.02]	0.02 [0.02]	0.01 [0.02]	0.02 [0.02]
Industry bandwagon JPN	0.09 [0.11]		-0.02 [0.04]	-0.02 [0.07]	-0.02 [0.08]	-0.03 [0.06]	-0.03 [0.08]
Bank network JPN	-0.01 [0.02]		0.00 [0.02]	0.00 [0.02]	-0.03 [0.02]	0.00 [0.02]	-0.02 [0.02]
Top10 size JPN	-0.07* [0.03]		0.08* [0.03]	0.05 [0.04]	0.05 [0.05]	0.05 [0.04]	0.05 [0.05]
Performance success JPN	-0.14+ [0.08]		0.01 [0.02]	0.01 [0.02]	0.00 [0.02]	0.01 [0.02]	0.00 [0.02]
Performance	0.00 [0.00]	0.00 [0.00]	0.00 [0.00]	0.00 [0.00]	0.00 [0.00]	0.00+ [0.00]	0.00 [0.00]
Performance deviation	0.17*** [0.04]			0.15*** [0.05]	0.15*** [0.05]	0.16*** [0.05]	0.16*** [0.04]
Banking finance	-0.02* [0.01]				-0.02* [0.01]		-0.02* [0.01]
Network centrality	-570.25+ [292.36]					-516.78+ [273.46]	-574.53* [276.30]
<i>Lambda</i>			2.17** [0.77]	2.12* [0.89]	1.57 [1.43]	2.17* [0.93]	1.61 [1.47]
Cons		-8.26*** [1.26]					
Industry dummies	Included	Included	Included	Included	Included	Included	Included
Year dummies	-	Included	-	-	-	-	-
Log likelihood	-193.50	-891.30	-385.15	-280.66	-199.36	-279.01	-197.57
N. of cases	2235	17810	14945	3501	2235	3501	2235

Notes: Robust standard errors are reported in parentheses.

+: $p < 0.10$, *: $p < 0.05$, **: $p < 0.01$, and ***: $p < 0.001$

Model 1 reports the outcome of the Cox proportional hazard.

Model 2 denotes the result of the random effect probit.

Models 3-7 are the outcomes of the Cox proportional hazard with the inverse mills ratio.

Table 3: Results of using adjusted Poisson method with inverse mills ratio

Methods	Adjusted Poisson method	
Variables	Model 8	Model 9
Log of firm age		0.28 [0.48]
Log of firm size		0.08 [0.21]
Bank ownership		0.19 [0.17]
Foreign ownership		-0.01 [0.02]
Stable ownership		0.02 [0.01]
Bank network ushybrid		0.00 [0.02]
Industry bandwagon ushybrid		-0.02 [0.05]
Top10 size ushybrid		-0.03+ [0.02]
Performance success ushybrid		0.00 [0.02]
Industry bandwagon JPN		-0.04 [0.07]
Bank network JPN		-0.05* [0.02]
Top10 size JPN		0.00 [0.04]
Performance success JPN		-0.04+ [0.02]
Performance		0.00 [0.00]
Performance deviation		0.14*** [0.04]
Banking finance		-0.02* [0.01]
Network centrality		-479.75+ [280.95]
0.interval	-1.75*** [0.05]	
1.interval	-7.26*** [0.45]	0.25 [1.31]
5.interval	-6.79*** [0.71]	0.33 [1.54]
6.interval	-6.09*** [0.25]	0.93 [1.19]
10.interval	-4.58*** [0.24]	0.67 [0.77]
11.interval	-4.75*** [0.26]	-0.23 [0.74]
12.interval	-5.31*** [0.24]	0.00 [0.00]
<i>Lambda</i>		-3.01 [2.08]
Cons		6.82 [9.11]
Industry dummies	Included	Included
Year dummies	-	-
Log likelihood	-1321.83	-138.71
N. of cases	25036	2235

Notes: Robust standard errors are reported in parentheses.

+: p<0.10, *:p<0.05, **: p<0.01, and ***: p<0.001