Comparative Corporate Governance
- Introductory Remarks -

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Contents

Corporate Governance

Why Corporate Governance? Organizational Perspective

- **”[T]he system by which companies are directed and controlled”** (Report of the Committee on the Financial Aspects of Corporate Governance, 1992)
- Default framework for organizing business enterprise
- Address collective action problems
- Reduce opportunism
- Reducing transaction costs

Why Corporate Governance? Agency Perspective

- **”[CG] deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment”** (Shleifer & Vishny, 1997)
- Investments are firm specific and result in sunk costs
- CG provides optimal balance in terms and conditions of different types of investments (equity, debt, labour etc.)

Why Corporate Governance? Redistributional Perspective

- **CG is the ”set of conditions that shapes the ex-post bargaining over the quasi-rents generated by a firm”** (Zingales, 1997)
- Incomplete contracts – t&c are renegotiated
- Control rights may transfer from time to time
- Stakeholder relationships are dynamic

Why Corporate Governance? Bargaining Perspective

- **“Corporate governance can be seen as a framework for recurring bargaining - among independent actors with varied interests who can obtain benefits from mutual cooperation.”**(Ilmonen, 2016)
- Stakeholders bargain for corporate control and profits
- Bargaining occurs directly and indirectly (through regulatory and political frameworks)
- Institutional environment defines the bargaining framework

Comparative Corporate Governance

CG Indices

- La Porta et al. (1998, 1999, 2000)
  - ”One-size-fits-all”
  - Same weight for different mechanisms
  - Conclusions questioned
- Djankov et al. (2008)
  - Minority protection
- Bebchuk, Cohen & Ferrell (2005)
  - Identifying relevant metrics (re weight in index)
- Pistor (2000)
  - Anti-block
- Martynova & Renneboog (2010)
  - Functional approach
- Lele & Siems
  - Detailed coding and differentiating CG systems/indices

Effects of the institutional environment

- Nature of ”agency problems”
  - Dispersed vs. concentrated ownership
- Mechanisms adapted to the environment
  - Path dependence
  - Complementary institutional structures
- Quality of legal institutions
  - Courts and agencies
  - Characteristics also affected by industrial structures
- Broader institutional structures
  - Tax
  - Labour regulation
  - Structure of the political system

For example:
Characteristics of CO Structure

- Controlling sh/h has considerable power and ability to protect her/his interests/rights
  - Reflected in legislation
  - Control rights are key for Controlling sh/h
- Minority ”voice” is not so relevant
  - ”Minority”
  - Opportunistic use?
- Minority investor protection critical
  - Exit-rights
  - Cash-flow rights
- Minority coordination problems
  - Court processes not a meaningful option
  - Ex post reg. mechanisms less meaningful
  - Regulatory agencies are important
  - Other mechanisms to enhance minority coordination
- Entrenchment of control
  - Lack of mechanisms
  - Skewed incentives
  - ”non-pecuniary PBC” also a problem

Regulation and the institutional environment

- Corporate governance structures depend on the environment
  - Structures are path dependent
- Regulation reflects the requirements of the environment
  - Different regulatory solutions in different environments
  - Regulation is also path dependent
- Key parameters for Regulation
  - Relevance
  - Enforceability / effectiveness
  - Feasibility

A Functional Perspective

A Functional Perspective to CG

"[F]ive main ways to mitigate shareholders' collective action problems:

1) *Election of a board of directors representing shareholders' interests, to which the CEO is accountable.*

2) *When the need arises, a takeover or proxy fight launched by a corporate raider who temporarily concentrates voting power (and/or ownership) in his hands to resolve a crisis, reach an important decision or remove an inefficient manager.*

3) *Active and continuous monitoring by a large blockholder, who could be a wealthy investor or a financial intermediary, such as a bank, a holding company or a pension fund.*

4) *Alignment of managerial interests with investors through executive compensation contracts.*

5) *Clearly defined fiduciary duties for CEOs and the threat of class-action suits that either block corporate decisions that go against investors' interests, or seek compensation for past actions that have harmed their interests."*

Source: CORPORATE GOVERNANCE AND CONTROL; Marco Becht, Patrick Bolton & Alisa Röell (Working Paper 9371; http://www.nber.org/papers/w9371)

Observations

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- CG must be analyzed in the broader institutional context
  - What are the issues in the relevant environment
  - Consider broader set of factors
  - Recognize path dependence and complementary institutions
  - Comparative Institutional Analysis (Masahiko Aoki, Ruth Aguilera & Gregory Jackson, Elinor Ostrom)
- Comparative CG
  - Remains relevant and important
  - Indices can and need to be developed

Thank you for your interest

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