Comparative Corporate Governance

Haxhi, I.

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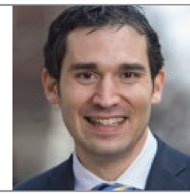

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Comparative Corporate Governance

By Ilir Haxhi September 7, 2018

Pr En Tv

By adopting a systematic cross-national comparative approach, my recent study provides an overview of corporate governance (CG) around the world. It takes stock of what we know about the two main CG models, the variations within and across these models, as well as the worldwide diffusion and possible convergence of CG practices.

Although there is a range of different regimes of CG in advanced economies, the literature on comparative CG focuses on two: the shareholder-oriented model (prevailing in Anglo-Saxon countries) and the stakeholder-oriented model (prevailing in Germany, Japan, and continental Europe, Aguilera & Jackson, 2003). While the former prioritizes a firm's maximization of shareholder value by securing strong shareholder rights and strong links with top management, the latter is characterized by weaker shareholder rights, consensus leadership, concentrated ownership, and, often, greater employee involvement. However, recent research has shown that there is not a sharp line between these two models, as firms often incorporate various aspects of both (Haxhi & Aguilera, 2017). The situation is further complicated by the comparative literature's focus on advanced economies rather than emerging markets (Aguilera & Haxhi, 2018).

The comparative management literature often treats CG as a facet of the broader debate about the evolution of the different models of capitalism. In this context, scholars claim that one or the other CG model is economically superior and that we should observe convergence towards this model of "best practice." A considerable controversy has emerged among CG scholars regarding an inevitable global convergence towards the shareholder value maximization model as the normative ideal (Aguilera and Jackson, 2010). The debate emerges around three fronts. First, several scholars argue that cross-national patterns of governance are converging towards the Anglo-American shareholder-centric model (e.g. Coffee, 1999; Hansmann & Kraakman, 2001). A second set of scholars suggests the "hybridization" perspective, where economic institutions are capable of change, and transnational practices are adapted to fit local institutions (Djelic, 1998). As a result, such adaptation leads to increasing hybridization rather than to a global convergence to one ideal model. Finally, a third body of researchers has advanced compelling arguments against convergence by demonstrating the powerful influence of sunk costs, network externalities, and endowment effects (Bebchuk & Roe, 1999).

Comparative CG and convergence debates often take place within the contours of the institutional approach, which stresses the embeddedness of national institutions (Haxhi, van Ees & Sorge, 2013) and "complementarities" between institutions, where alternatives to convergence seem possible (Haxhi & Aguilera, 2017). Companies may respond very differently to similar pressures, and distinct 'best practices' contingent on the national context may emerge. My study applies this approach by examining the interaction among various forms of CG in large, small, and medium-sized firms and national institutions in different countries, in the context of internationalizing capital markets.

By adopting an institutional approach, the first section of my study describes the major CG features influencing post-war company decision-making in advanced economies. The in-depth explanation of the two main models is followed by an analysis of the Japanese CG model, which is similar to the Rhineland model. The second section explores the continental European models, which are variants of the two main models. The analysis shows that variations among the advanced and transition economies in CG stem from differences in key societal institutions, such as government regulation, financial system, corporate law, and cultural values. The third section offers a brief overview of the models of CG in the BRIC countries. The fourth section deals with the worldwide diffusion of CG codes (Haxhi & van Ees, 2010), which are instruments of self-regulation and define best practices for boards, management, supervision, disclosure, and auditing. The section discusses the main causes of code diffusion across countries, as well as their possible convergence (Haxhi & Aguilera, 2012). Finally, the closing section discusses the major strengths and weaknesses and possibilities for change in both models.

Overall, the comparative analysis of CG systems shows that both the Anglo-Saxon and the Rhineland models of CG have their strengths and weaknesses, which help to explain their divergent impact on industrial competitiveness. Major strengths of the Anglo-Saxon system include efficiency, flexibility, and responsiveness in financial markets, and high rates of corporate profit; while the weaknesses stem essentially from the unitary board system and its short-termism, which impede effective monitoring of management performance. Major strengths of the Rhineland model are that it encourages investment to upgrade capabilities and productivity in existing fields; however, there is a tendency to over-invest in capacity, to produce too many products, and to maintain unprofitable businesses. Moreover, the stable, long-term relationships between banks and firms are increasingly seen as inhibiting the formation and growth of firms in new sectors, as well as hindering the development of a large and liquid capital market.

The comparison reveals that there is no such a thing as the best CG system. While the majority view is that the shareholder model will prevail due to the increasing dominance of institutional investors on international capital markets (Lazonick & O'Sullivan, 2000), the intense competition between the Anglo-Saxon and the Rhineland models in Europe provides evidence to the contrary. The impact of this competition provides few signs of change in the UK, which incorporates elements of the Anglo-Saxon and large-firm Rhineland models. Since national forms of CG are embedded in established practices and regulatory policies, change in one area does not result in changes to the entire system.

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This post comes to use from Professor Ilir Haxhi at the University of Amsterdam Business School. It is based on his recent chapter, "Comparative Corporate Governance," available here.