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1. Introduction

There is an ongoing debate on whether corporate governance systems of major economies are converging towards common standards. Some academics argue that globalization will lead to a single corporate governance model which is quite similar to the Anglo-American one (e.g. Coffee, 1999). Other academics argue that such a globalization will not happen (e.g. Branson, 2000). Hansmann and Kraakman argue that corporate governance practices and corporate law of different countries will converge.

Because of the overall globalization and the financial crises in the world, managers and owners of companies have to think over their present strategy, their governance systems and the challenges posed by such questions.

The goal of my diploma thesis is to introduce the development of corporate governance systems in the last two decades, and to find out if there is a relationship between globalization's degree and convergence.

Corporate governance is not more than administration and control of a company. For a better understanding it is necessary to give a more detailed definition of corporate governance and to define the members who participate in a corporate governance system. These participants play different roles depending if they are internal or external institutions.

To be able to compare the different kind of governance systems, the possible composition of these systems will be also defined.

Since there are many countries with different corporate governance determinants in the world, the development of several corporate governance systems is evident. Therefore some of these systems should be introduced and analyzed in order to have an overview about the functioning of corporate governance systems from all around the world.

I choose those corporate governance systems by which other systems are the most affected. Because the United States' economy influences the world economy significantly, and its corporate governance structure is based on the same factors as the British one, the first chosen system will be the Anglo-Saxon system.

One of continental Europe's most significant economies is Germany, which also affects other countries' corporate governance. This is the reason why I chose the German system for comparison with other countries.

To represent Asian corporate governance I introduce the Japanese system. I find the role of the Main Bank in corporate governance very interesting.

The forth system I choose is an example of the Latin countries: Spain.

I will analyze these systems according to ownership structure, financial regulation, capital markets, labor markets and its regulations, debt structures, bankruptcy laws and banking supervision.

After the analyses I am going to show the changes in the chosen systems in the last decades and investigate if they are converging to each other.

The last part of the thesis will be about the firm performance. There are different factors which influence the firm performance. In my point of view the ownership structure is the most important factor regarding firm performance. I try to show its importance and its role in convergence of the different corporate governance systems. Furthermore I will show further approaches of corporate governance systems' convergence and give a summary about studies in the last decades. Since takeover regulation is one of the most important factors of corporate governance in the last section I will write some words about its changes in the last years.

2. Corporate Governance Systems

2.1 *What is Corporate Governance?*

“Corporate governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as, the board, managers, shareholders and other stakeholders (employees, customers, creditors, suppliers, local communities, others), and spells out the rules and procedures for making decision on corporate affairs. By doing this, it also provides the structure through which the company objectives are set, and the means of attaining those objectives and monitoring performance.” (OECD, 1999)

A country’s corporate governance system influences the profitability and growth of companies in their decision makings. It also has an impact on the wealth created in a country. But countries’ corporate governance systems differ in their:

- ownership structures of equity
- structures of corporations
- role of the banking system in the economies
- business circumstances
- efficient functioning of capital markets
- level of competition in both domestic and international product and capital markets.

In the case of a stock company, the company is „owned” by the shareholders, but actual management of the company is left to the managers. A system is required for checking whether the managers and the shareholders are acting in an adequate way with the firm’s interests. Further it is not only the shareholders that have close interests in the company’s activities. The customers support the company by buying the goods and services which in turn supplies its clients. The firm is further supported by the creditors who buy the bonds issued, by the national and local governments, by the community in which it is located, by the employees who choose the company as their place of work and by other companies which are selling their products for that company. A company has social responsibilities not only to its shareholders, but to these other parties as well.

To answer the question “which country’s corporate governance system is the best” we should analyze these systems. Of course if there is a “best system” no of other countries can overtake it because of the differences mentioned above.

In the next part there will be a description about the different corporate governance systems.

Figure 1. Members of Corporate Governance Systems



2.2 Basic Mechanisms of Corporate Governance

One of corporate governance’s most important mechanisms is the market. There are three central markets, the managerial labor market, the firm’s capital and product market.

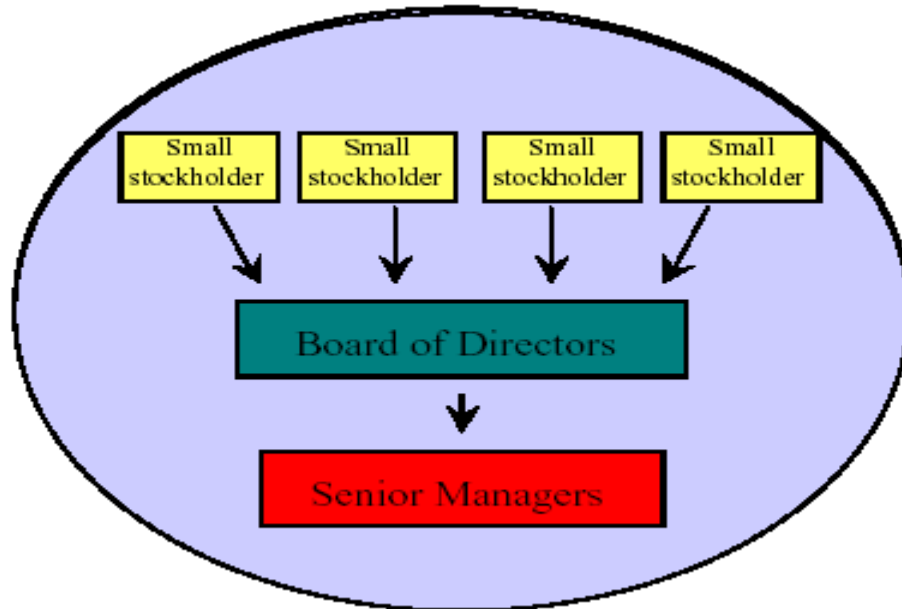
All corporations in the world have boards of directors. They play a very important role in hiring, firing, monitoring and compensating the management. The goal is to maximize shareholder value. Theoretically the board is thought as an efficient corporate governance mechanism, but in reality its role is less clear. In the US, the board of directors contains some of the insiders who are to be monitored. In some cases they represent a majority of the board. It is not uncommon that the CEO is also the chairperson of the board. Board members are mostly chosen by the management which has an influence in determining other members.

One of the most important elements of corporate governance is ownership structure. A greater coverage between control and ownership should cause a reduction in conflicts of interest and hence to higher firm value.

Shareholders other than management can potentially influence the actions taken by management.

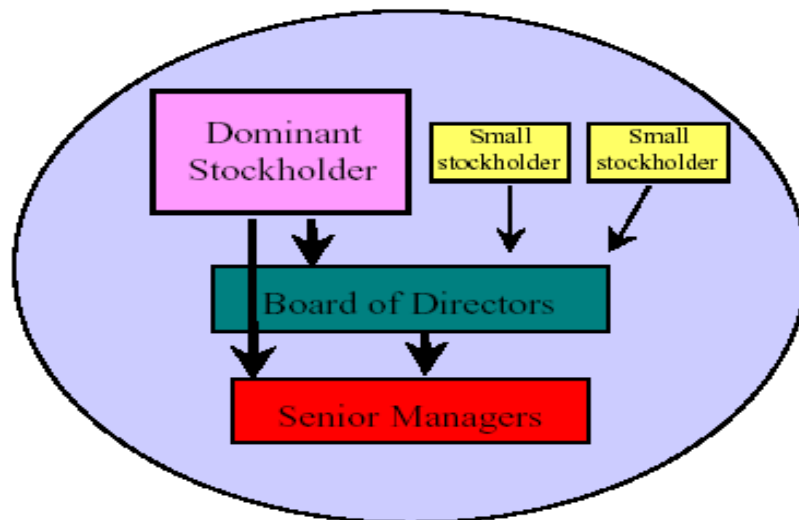
The board, the managers, and the shareholders have a horizontal and a vertical dimension.

Figure 2. Vertical governance: Diffuse ownership



Vertical governance is between distant shareholders and senior managers. It is very important that CEO and senior managers are loyal to shareholders and manage the company competently. This type of corporate governance is typical in Anglo-Saxon countries.

Figure 3. Horizontal governance: Controlling vs. minority shareholders in the public firm



The horizontal governance is between dominant and dispersed shareholders. Dominant shareholders have more influence on senior managers and the board of directors than shareholders in the vertical model. This type of corporate governance is typical in Continental Europe.

Horizontal governance is dominant in most of the world; vertical governance is typical in the United States.

There exists another form of corporate governance dimension which belongs neither to the vertical nor to the horizontal dimension. This form governs the firm so that it is legitimate in its society and is a shallow for modern corporate governance in the United States.

2.2.1 Internal and External Mechanisms

2.2.1.1 Internal Mechanisms

The most important internal mechanisms of corporate governance are the board of directors and its committees. They are responsible for monitoring, controlling the company's activities and for decision-making. The effective functioning of board is influenced by its composition and size. Linck (2008) argues that the board structure reflects the firm's industry, the need for monitoring of activities and the transparency of

the firm's earnings. The level of board activity may be indicated by the frequency of board meetings. The board of directors consists of executive and non-executive directors. Executive directors are experts in their fields, while non-executives are professional directors. They monitor financial reporting and the board's activities. Balance between executive and non-executive directors is needed. For effective functioning independence of non-executive directors is important. Chairpersons and chief executive officers play a fundamental role in companies' life. Chairperson's responsibility is that board's activities are carried out correctly and that information comes directly to the directors. CEO supervises strategy and investments and informs the board. He is also responsible for the daily business.

The second group of internal mechanisms are the audit committee, the internal control and the internal audit. Audit committee belongs to the group of non-executive directors. The most important characteristics of audit committee members are its independence. The board has primary responsibility for internal control, although it is often delegated to its audit committees. There are firms which keep internal audit function 'in house', while other use external opportunities or a mixture of the two.

2.2.1.2 External Mechanisms

External mechanisms control the shareholders and the board. Such mechanisms are for example blockholders and analysts. Managers can be forced by large blockholders to take actions for improving the firm's value. External analysts are very effective at monitoring by collecting data from different sources. They create useful reports which help in decision-making.

External auditors play a very important role in corporate governance. Their independent reports give investors a better and more reliable overview about a company's financial status.

Competition forces firms to take actions which are in the shareholders' best interest. Takeovers can also influence senior management's decision-making. To protect shareholders regulation and enforcement are the most important external institutions. La Porta (1998) found that countries whose legal system is grounded in common law have a higher level of minority shareholder protection than civil law countries. In recent years the level of protection across countries has converged a little.

2.3 Corporate Governance Systems – Differences

Within a company there are incomplete contracts between shareholders, managers, creditors, employees and customers. Between these actors exist transaction costs which are paid for the coordination processes. There are three relationship types which can be determined as having transaction costs:

- shareholders and managers
- majority and minority shareholders
- shareholders and other stakeholders

Company law regulates these relationships and tries to minimize the transaction costs between stakeholders.

The members of Board of directors are utility maximizers and therefore represent not always the best interest of all stakeholders. Since agency problems are solved by good governance, reorganization of governance structure is eventually needed. Agency problems can be solved in different ways. We distinguish between one-tier and two-tier systems.

2.3.1 One-tier and two-tier Systems

The one-tier board system has only an administrative organ. It has the common responsibility of its members for the management and control. It ensures that the necessary information will be available to all its members by direct information access. This fact allows being flexible for board organization and this form of corporate governance is also able to make decisions faster. Independent non-executive directors have a control function. The common principles are laid down for example in the United Kingdom in the Combined Code (2003) which is part of the listing requirements at the London Stock Exchange. Since the shareholders' interest is very important, directors cannot be the CEO. Problems in the one-tier system can be caused by the lack of directors' knowledge of information because they are dependent on CEO for reappointment. Therefore the independence of control does not exist. Board committees

play a very important role because they are independent consultants for board of directors. Audit committee is also part of listing requirements in stock exchanges.

Two-tier board systems have both a supervisory- and a management organ. Supervisory board controls the management board which is responsible for shareholders and protects public interest. It also approves management decisions. Simultaneously is supervisory board dependent on management board, which can cause problems in the ownership structure.

“Apart from this strong position of block holders in supervisory boards one might also view interlocking directorships as a problem of the two-tier board system. These directorships are established if a member of one supervisory board is also a member of one of more other supervisory or management boards of another company (Boehmer, 2001)”¹

Management and control should be separated because of the inefficiency by working together. The optimal control can be hardly defined. Members of supervisory board are interested in avoiding conflicts and obtain cooperation they collect the information from the management board (from the board which should be controlled). The management organ is appointed by the management board which can make suggestions for the election of members for the supervisory-board.

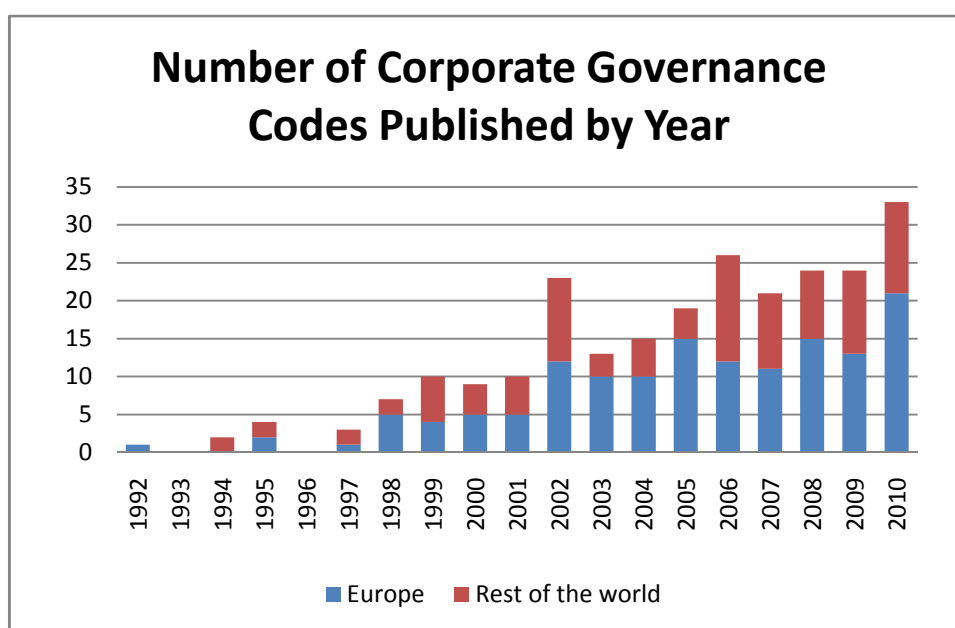
As already mentioned corporate governance systems differ in their ownership structures, financial regulations, capital markets, labor markets and its regulations, debt structures, bankruptcy laws and banking supervision.

Importance of boards is strengthened by the implementation of Corporate Governance Codes all over the world. In the UK is the most important one the Cadbury Report (1992) which emphasizes the intensive monitoring of the executive management (Cadbury Report, 1.1). The most cited corporate governance principles are laid out by the OECD² which is the common basis of most corporate governance codes. It is about the board's accountability to the company and the shareholders (e.g. German Corporate Governance Code, 2002, section 4; French Bouton Report, 2002, part 1; Japanese Corporate Governance Code, 2001, chapter 1).

¹ Udo C Braendle, Juergen Noll, *The Societas Europaea – A Step Towards Convergence of Corporate Governance Systems*, p.4.

² OECD, *OECD Principles of Corporate Governance*, published by the Ad Hoc Task Force of Corporate Governance, 19-Apr-1999, Paris (1999)

Figure 4. : Number of Corporate Governance Codes Published by Year



Source: ECGI Codes Database (www.ecgi.org/codes)

2.3.2 Insider and Outsider Model

Many empirical studies found, that between countries exist differences regarding corporate ownership structure. A classic study is from Jensen and Meckling (1976) who integrated elements from the theory of property rights, of finance and of agency to develop a theory of the ownership structure of the firm. Another important study of Holderness, Kroszner, and Sheehan (1999) researched managerial ownership of US firms. Schnepfer and Guillen (2004) researched the effects of shareholder power in 37 countries. Markarian (2007) examined changes in governance practices at 75 large global firms.

The differences categorized countries into two groups: insider and outsider systems.

To understand why a system is characterized as an outsider or insider model, a definition of both terms is necessary.

In the insider (“stakeholder”) model ownership and control are held by insiders who have longer-term stable relationships with the company. Banks can play an important role. In the firms the owners are inclined to have a stable interest and they usually have a position in the board of directors or in other senior managerial institutions. The relationships between management and shareholders are close and stable and formal rights for employees exist to influence key managerial decisions. This model is characteristic of corporate governance in Continental Europe and Asia.

The outsider (“shareholder”) model is a common equity ownership with large institutional holdings. Market regulation has a precedent position and the firms’ owners are inclined to have a preliminary interest in the firm. Close relationships between shareholders and management are absent. “Owners of firms tend to have a transitory interest in the firm. There exists an active “market for corporate control”. There is a primacy of shareholder rights over those of other organizational groups. With well regulated and liquid stock market, equities tend to have a high share of financial assets. The low debt equity ratio is the norm for the company. Banks provide short term finance and maintain arms’ length relationships with corporate clients.”³ This model is characteristic of the United Kingdom and the United States.

Table 1. Two Types of Financial Systems

Two Types of Financial Systems – Stylized Facts

		insider system (<i>IS</i>)	outsider system (<i>OS</i>)
ownership	ownership concentration inter-corporate crossholdings	high common	low uncommon
markets	capital markets market for corporate control	illiquid inactive	liquid active
law	corporate law security law	strict liberal	liberal strict

Source: Markus Berndt: Global Differences in Corporate Governance Systems, Discussion Paper No. 303, 11/2000, p.7.

2.3.3 The Anglo-Saxon System

This model of corporate governance systems is typical in Anglo-Saxon countries and is known as the shareholder model. These countries have a low concentration of shareholders that happens because many companies are publicly traded and shareholders can spread their money over more companies.

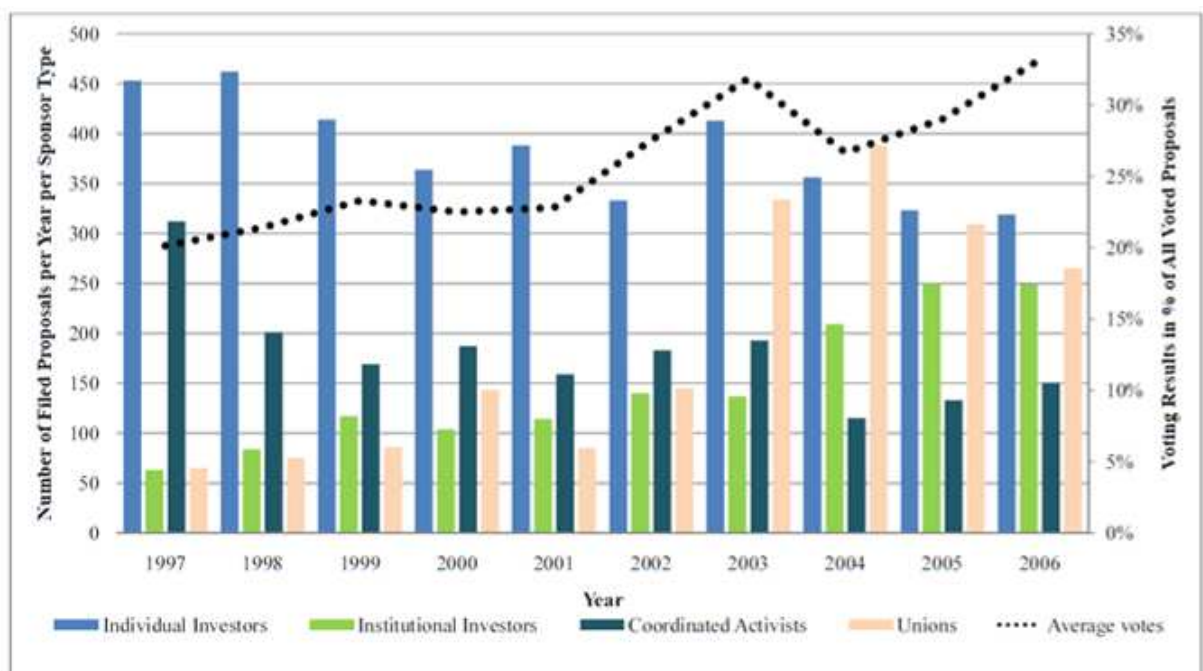
³ <http://www.oecd.org/dataoecd/50/46/19802369.ppt>

2.3.3.1 Ownership Structure

In Anglo-Saxon countries exists a so called diffuse stock ownership which means that most of the shares are in the hands of the agents of financial institutions (more than 50%) rather than private persons (20-30%). These countries have a developed corporate governance system and culture therefore they can also have a highly developed stock market.

Shareholders activism can be shown through their proposals and voting results. Figure 5 shows a graph about the number of filed proposals and the average voting results from 1997 until 2006. The highest rates have individual investors, but their proposals decreased over time. Institutional investors' proposals increased, which could be explained by the increasing rate of institutional ownership from 50 to over 70%.

Figure 5. Number of filed proposals and average voting results over time



Source: Bauer, Rob; Braun, Robin; Viehs, Michael, Industry Competition, Ownership Structure and Shareholder Activism, 2010, p.15.

2.3.3.2 Outside Control Mechanism

Maug (1998) analyzed whether liquid stock markets are beneficial for corporate governance. If shareholders get adverse information about a company, they can discharge their

investments according to the market's liquidity. The author finds that the liquidity of the market assists corporate governance effectiveness.

Renneboog (1996) argues that if voting power is dispersed, free-riding will occur. Single shareholders have benefit only from the percentage of his stake in the firm while he will bear the costs of control. Shareholders do not take actions because there is less benefit than the control costs. Management will have dominant power in the firm. Great power is delegated to management which leads to a short-term orientation. This is characteristic of corporate governance. At least once a year management must report to the shareholders. This stimulates managers to make decisions that are very profitable in the short term.

2.3.3.3 The Role of Government in the U.S.

The economy has been drifting for at least the last two decades toward the wealth-driven stage. Positions in many advanced industries have eroded. Goals of firms and investors have turned away from sustained investment. Competition has slackened. The gap in standard of living between the highly educated and skilled employees and those with less training is becoming more apparent. Companies are turning to government for help in suspending competitive pressures that create appetites for more help. The orientation has turned from offensive to defensive.

The recent improvements in productivity growth and exports, while encouraging, are not yet a sign of fundamental change. Productivity growth reflects in no small part a one-shot restructuring and downsizing in many industries, and recent figures show that the period of growth above historical norms may be short-lived. Net investment still lags behind other nations despite the fact that industry is operating at near capacity. Export growth reflects a sharp devaluation of the dollar and real wage declines, both of which reduce the long-run standard of living. The bases of renewed sustained productivity growth are still not in place. There are many areas of underlying advantage in the United States, such as top universities, unique demand conditions in some fields, the capacity for risk taking, and vibrant new business formation. There are also demographic forces which will create pressures for rising productivity growth and a higher rate of savings. The rapid pace of change in technology promises to provide many opportunities for American inventiveness and entrepreneurship. These create the potential for the United States to enter a period of sustained prosperity. At the same

time, however, the erosion of U.S. position over the last two decades signals some strong constraints to further advancement.

American firms and the American government have important choices to make. The nation is teetering between a renewed commitment to traditional American values and a retreat to consolidation, protection, and defensiveness.

Government policy in the United States reflected a nation with strong and growing national advantage. The extent of direct intervention in industry was among the lowest in the world. Public ownership was rare, in contrast to a more socialist orientation that especially characterized Europe.

Instead, the American government played a number of indirect roles in industry. One was that of factor creator. Investments in education, science, and infrastructure were heavy and continuous, and involved state and local governments as well as the federal government. Another important government role was as protector of competition. America maintained a vigorous antitrust policy, championed a free and open trading system, and took important steps to reduce cartelization and economic concentration abroad, especially in Germany and Japan.

The American government also set out aggressively and in some cases earlier than other nations to meet a series of challenges and in the process created important indirect benefits for industry. The U.S. government also sought to promote and defend American interests and democracy abroad. These roles, which would take on greater significance as the decades passed, would come to override the needs of industry.

Finally, a large defense program was instrumental in promoting science and in creating advanced home demand. In the 1940s, 1950s, and 1960s, defense research centered on core technologies such as electronics, computers, and aerospace. Commercial spin-offs were numerous and rapid. With a huge technological lead in fields serving defense and aerospace markets, U.S. companies often exploited their knowledge and experience to establish leading positions in civilian markets.

It may be most notable; however, that explicit American government attention to industry was modest. While government policy yielded benefits that flowed to industry, these were rarely the primary motivating force. Instead, American economic strength was used to advance other goals.

2.3.3.4 Corporate Governance Codes in the U.S. in the Last Decade

The following Corporate Governance Codes were published and actualized in the last 10 years: Report of the NACD Blue Ribbon Commission on Director Professionalism (2001), Principles of Corporate Governance: Analysis & Recommendations (2002), Core Policies, General Principles, Positions & Explanatory Notes (2002), Principles of Corporate Governance (2002), Corporate Governance Rule Proposals (2002), Commission on Public Trust and Private Enterprise Findings and Recommendations: Part 2: Corporate Governance (2003), Restoring Trust - The Breeden Report on Corporate Governance for the future of MCI, Inc. (2003), Final NYSE Corporate Governance Rules (2003), Asset Manager Code of Professional Conduct (2004), TIAA-CREF Policy Statement on Corporate Governance (2007), Key Agreed Principles to Strengthen Corporate Governance for U.S. Publicly Traded Companies (2008), Report of the New York Stock Exchange Commission on Corporate Governance (2010)

2.3.3.5 The Role of Government in Britain

Britain has been caught in the wealth-driven stage for some times. Its relative living standards have suffered accordingly, particularly for the average worker. The loss of competitive advantage created its own momentum. One industry's weakness spread to others. Falling income eroded demand quality. Pressure on government revenues led to underinvestment in factor creation, infrastructure, and public services, undermining competitive advantage further. This momentum, once created, is hard to arrest.

There are some signs of renewal in British competitive advantage. Positions in chemicals, oil, pharmaceuticals, software, publishing, financial services, and consumer goods are being sustained. Along with these is growing strength in retailing and signs of a rebound in manufacturing companies. Productivity growth and investment have improved.

An important catalyst for change has undeniably been the Thatcher government. Other forces are also at work in Britain which has helped. Economic necessity, changing social norms, and the takeover and turnaround of stodgy companies have also contributed to the new wave of energy sweeping across many British firms and industries.

However, the renewal of British industries appears fragile and spotty. A large pool of unemployed persists. Renewal is also confined, in many industries, to one-shot restructuring and cost cutting, made possible in some cases by a new balance of power between unions and management. Mergers are prevalent, but the benefits to real competitive advantage are less clear. Especially in manufacturing, British firms have undone some past sins, but most have yet to create the basis for future advantage. This requires new products and new processes; it requires innovation.

A good deal of the growth in British employment has come from investments by foreign firms. Much of this, however, is driven by factor costs. Foreign investments are largely in assembly facilities taking advantage of low-wage, mostly unskilled labor. While foreign investment provides some welcomed benefits to British industry, and economy whose growth depends on assembly outposts of foreign companies will be constrained in terms of productivity growth.

2.3.3.6 Corporate Governance Codes in Britain in the Last Decade

The following Corporate Governance Codes were published and actualized in the last 10 years: Code of Good Practice January (2001), Review of the role and effectiveness of non-executive directors (Consultation Paper) (2002), The Hermes Principles (2002), The Responsibilities of Institutional Shareholders and Agents - Statement of Principles (2002), The Higgs Report: Review of the role and effectiveness of non-executive directors (2003), Audit Committees - Combined Code Guidance (the Smith Report) (2003), The Combined Code on Corporate Governance (2003), Corporate Governance: A Practical Guide (2004), Good Governance: The Code of Governance for the Voluntary and Community Sector (2005), Pension Scheme Governance - fit for the 21st century: A Discussion Paper from the NAPF (2005), Corporate governance in central government departments: Code of good practice (2005), Internal Control: Revised Guidance for Directors on the Combined Code (2005), Good practice suggestions from the Higgs Report (2006), The Combined Code on Corporate Governance (2006), Guidelines for Disclosure and Transparency in Private Equity (2007), The Combined Code on Corporate Governance (Revised June 2008), A review of corporate governance in UK banks and other financial industry entities (The Walker Review) (2009), A review of corporate governance in UK banks and other financial industry entities: Final

recommendations (The Walker Review) (2009), 2009 Review of the Combined Code: Final Report (2009), The Audit Firm Governance Code (2010), A Stewardship Code for Institutional Investors (2010), The UK Corporate Governance Code (2010), The UK Stewardship Code (2010), The AIC Code of Corporate Governance (2010), Corporate Governance Guidance and Principles for Unlisted Companies in the UK (2010)

2.3.4 The Germanic System

In Germany is the concentration of ownership very high. The owners are financial intermediaries who are much appreciated. The votes of banks can be given to the shareholders, which in turn can be deposited in there banks. This is the so called proxy voting system. This is the reason why banks can be able to have a big part of control even over bigger companies. Most important cross-holdings are – regarding even financial and non-financial firms – the insurance companies and banks. The importance of portfolio-investors is marginal (e.g. pension funds, investment funds) which is shown in the importance of consequence of cross-holdings' scope and the role of banks. In German firms the management board is not elected by the shareholders but by the supervisory board. There exists also an assumption that the former is elected and controlled by the supervisory board. In the Germanic system the stock exchange plays a less important role. The number of listed companies and their market capitalization is small compared to the size of German economy. Only a few companies have shares with high turnover.

In German countries only a small proportion of the total numbers of firms is listed. A high percentage of the total number of shares that are publicly traded is held by shareholders. Private persons hold 15-35%, financial institutions 10-30% and private companies 20-40% of the shares. Private persons and companies act directly and do not use agents to manage their affairs.

There are not many shareholders who have a high percentage of a company's shares and therefore they control the firm and make decisions.

It is typical of this model that a few shareholders have a considerable power, and therefore they keep control over the company. The consequence is that their goal is not to enlarge the size of the company but to increase profitability. The ownership structure

of many firms is characterized by the participation of control and holding structures. A few owners are suppliers of the company's equity, since ownership is concentrated. They have the power over the investments, although the control's complex structure dispute transparency to the firm's structure. Because ownership is concentrated, only a few owners are suppliers of the equity to the firm. The transfer of cash flow from one company to another is a common practice. According to the absence of transparency, cash flow can be transferred from firms with good performance to similar but bad performing firms.

To enhance the performance of corporate governance model, internal discipline mechanisms are frequently used in the Germanic model and are introduced from inside the company itself. They include the board of directors, compensation contracts and discharge of the management function.

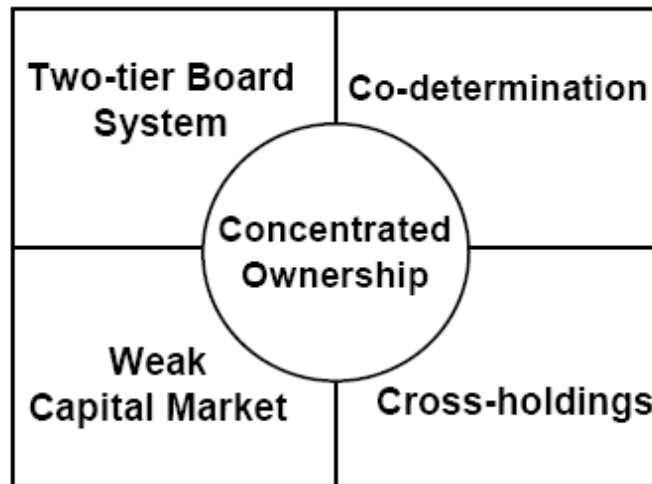
The Germanic system of financial investment and corporate governance is based on banks.

This structure is said to lead to considerable benefits, especially in two respects: the availability of cheaper and longer-term bank finance for firms, and better corporate governance in terms of fewer agency problems.

Usually the advantages claimed for a bank-oriented system are derived from the number and nature of close links between a universal bank as financier and its client firm. German banks are seen as being much more closely involved with the firms they supply funds to than banks are in market-oriented systems.

Only a small number of banks act as monitors of management on behalf of shareholders in a small number of firms. For all other firms, there is an even greater lack of data and thorough studies on the extent to which German banks play a role in corporate governance that differs markedly from the monitoring role of credit institutions in other countries.

Figure 5. The building blocks of the German model of corporate governance



Source: Dariusz Wójcik: Change in the German Model of Corporate Governance: Evidence from Blockholdings, 1997-2001, Fig.1.

2.3.4.1 Corporate Landscape

80% of the firms belong to the so called „Mittelstand”. “German stock corporations (Aktiengesellschaften) have three corporate bodies – an annual general meeting of shareholders, a board of management (Vorstand) and a supervisory board (Aufsichtsrat). At the annual general meeting, shareholders exercise the rights granted to them by the Stock Corporation Act. These include in particular the resolution on the appropriation of net retained profits, the election of the auditor, the discharge of the board of management and the supervisory board, amendments to the Articles of Incorporation, the issue of new stock and convertible bonds and bonds with warrants, the authorization to acquire own stock and the election of the shareholders’ representatives to the supervisory board.”⁴

⁴ http://www.sglgroup.com/cms/international/investor-relations/corporate-governance/principles-of-german-corporate-governance/index.html?__locale=en

2.3.4.2 Codetermination

“German corporate governance practices are generally based on the provisions of the German Stock Corporation Act (Aktiengesetz), the German Codetermination Act (Mitbestimmungsgesetz) and the German Corporate Governance Code.”⁵

2.3.4.3 Insider-based System

The German insider-based system is characterized by the high ownership concentration. Banks are often major owners and cross-ownership networks are common. Hostile take-overs are rarely to find.

2.3.4.4 Governing Bodies

- Hauptversammlung

Hauptversammlung is a kind of a general business meeting which takes place 1-2 times in a year. Shareholders can vote with special stocks.

- Aufsichtsrat

Supervisory board is called Aufsichtsrat in the German system. It controls the Vorstand whose members are elected for 4-year tenure. Aufsichtsrat has non-executive members (from banks etc) and employees and also committees. The supervisory board in the Germanic system consists of shareholders' and employees' representatives. Generally, the shareholders who are members of the supervisory board are experts in business activities of the firm.

- Vorstand

The board of management consists of executive directors who are elected for 5-year tenure. The Sprecher (=speaker) is equal among equals. The members get a remuneration which is a fixed salary plus profit share. They are responsible for representing the company in its dealings with third parties and managing it. The activities and functions of senior executives in U.S firms are similar to those of German board of management. Hence, the speaker and the chairman and also the whole stock

⁵ http://www.sglgroup.com/cms/international/investor-relations/corporate-governance/principles-of-german-corporate-governance/index.html?__locale=en

corporation are considered as equals. They together disperse responsibility regarding management decisions.

2.3.4.5 Changes in the Last Decades

There is a considerable stability in the German corporate governance system regarding the last 30 years, but ignoring the last 10 years. In the European context hardly any other country exhibits so much stability in this area. The role of banks has marginal changed, and the co-determination has been kept stable. The joint stock corporation's legal structure is almost untouched. To define it more general, the conflict's and collaboration's consistence between different groups, which are relevant in German corporate governance, has remained the same over the last decades. There has also been no change in the fact that small shareholders' interests tend to receive relatively little attention.

The change happened not only because the previous system was not at all bad for all parties and the members have realized the signs. A specific effect of preservation and consistency on a system's affinity exists which helps to develop and adapt to new circumstances. Complementarity and consistency prevent changes, especially gradual changes. Reforms typically start as partial reforms. As long as there is not an extreme problem, reforms are not 'revolutions'.

The potentially most important recent developments have taken place in the political area.

Recently the German system of corporate governance is going ahead towards the Anglo-Saxon model. It was previously known for cross-holdings and concentrated ownership. Now there are different forms of concentrated ownership by the state, other corporations and families. And there are also companies which are widely held.

Table 2.Companies by largest owner

	1990	1992	1994	1996	1998	2000	2002	2004	2005
Family	13	13	15	16	19	21	20	19	20
Corporate	19	19	21	27	32	34	31	24	22
Widely held	8	8	7	5	6	6	10	20	22
State	5	5	4	5	3	5	7	7	6
Total	45	45	47	53	60	66	68	70	70

Source: *Fronningen, Leif Anders; van der Wijst, Nico*, Ownership structure and performance of the largest German companies, Working Paper Series, 2009, p.8.

Table 2 shows companies with largest owners in %. Ownership structures have changed within 15 years.

2.3.4.6 Corporate Governance Codes in the Last Decade

In the last 10 years there were 10 different corporate governance codes and their actualized versions published. The most important ones are the Baums Commission Report (2001), The German Corporate Governance Code (The Cromme Code, 2002), which was six times actualized and supplemented (the last one was published in 2010) and The Corporate Governance Code for Asset Management Companies (2005).

2.3.4.7 The Role of Government in Germany

Comparing the German government with other Asian and European countries, it has a rather moderate participation in the industrial policy. Germany is among the most open markets in the world, and tariffs have historically been low. German industry has had to face foreign competition and has been strengthened in the process. Export financing is done on a commercial basis, not through a government agency that is subsidized.

The principal role of the German government, both federal and Länder, has been in factor creation, especially in education and in science and technology. The extensive array of mechanisms described earlier is heavily funded by government. Interestingly, though, direct government control is not exercised in many instances; a degree of independence is present even in government-funded technical institutes.

German regulation has tended to be demanding and has generally pressured innovation, not impeded it. German environmental standards are also stringent and lead the world in some fields, stimulating innovation in the industries affected. Yet German regulation has frozen the status quo in other areas.

Despite its generally constructive role, the German government has also had a stubbornly persistent tendency to subsidize ailing sectors such as steel and shipbuilding, with little effect except to postpone adjustment. Deregulation has lagged behind many other nations, placing a drag on the advancement of the affected industries. The extent of state ownership in Germany is relatively high; privatization and the opening of industries to competition have also lagged. Moreover, the commitment to competition has seemed increasingly tentative. Finally, the tax changes I described earlier raise serious concerns for corporate goals, as well as, in the long term, for new business formation.

Summarizing the facts about the German corporate governance system, it can be said that Germany became an industrial powerhouse in the late nineteenth century when it achieved world-class status in science and technology. It has been an innovation-driven economy even since. The enormous breadth of industries in which Germany has competitive advantage has made the German economy a robust one in international competition. German companies usually compete on the basis of differentiation instead of cost. They enjoy early mover advantages due to an installed base of sales, well-developed foreign sales and service networks, and an international manufacturing presence in many industries. The dynamism of German industry has been continually stimulated by a rapid rate of factor creation, selective factor disadvantages, and demand-side pressures.

Yet there are some real threats to German dynamism. Germany has enjoyed more than three decades of uninterrupted prosperity and is among the highest standards of living in the world. While the breadth of German industry is substantial, and positions in most established German industries have been sustained, many more industries are losing world share than gaining it. The creation of new businesses in Germany is inadequate to deal with a stubbornly high unemployment rate. Major commercial and scientific breakthroughs by German firms have become rarer. Germany is at the cutting edge of few new consumer product or service industries.

2.3.5 Japanese System

2.3.5.1 Past Features of Japanese Companies

The Japanese model is a combination of focusing on employees and on shareholders. This illustrates that it is not typical of Anglo-American corporate governance giving top priority to the interests of shareholders.

The Japanese corporate governance has two basic characteristic properties. The first property is that the main bank plays an important role in disciplining and monitoring the client firm. Shareholders are expected to discipline firms in equity funding. But equity funding has had only restricted role in corporate governance, because shares have been extensively cross-held between corporations and banks or between non-bank corporations. These properties have substantial limiting factors for corporate governance in Japan.

Past features of corporate governance in Japan are the system of support by main bank, the stabilization of shareholders by cross-holdings with other companies, and the running of board of directors and board of auditors by persons promoted from inside company. A firm would have a long-term business relationship with a specific bank by cross-holdings of shares, loans, etc. Close monitoring by the firm's bank, gathering detailed information which are not otherwise available on firm performance and plans are involved. If a company falls into financial threat, the main bank has to rescue and restructure it.

Most companies however have now shifted from bank financing to market-oriented financing. As a result, ties with banks have become weaker than in the past. This main bank-oriented mode of corporate governance is low in transparency.

The most of the auditors and directors were drawn from the ranks of employees. The number of "silent shareholders" was increased by the extensive cross-holdings. This led to imperfect operation of the monitoring function of the capital market.

2.3.5.2 Changes in the Capital Market

As a result of liberalization and growth of the direct financing market starting in the 1980s, the means of raising capital in Japan have been diversified. Large companies in particular have shifted from indirect financing to direct financing. As a result, corporate governance by main banks has become weaker.

The asset structure of companies and financial institutions have been re-evaluated and also other improvements in the management's reforms were made. These were motivated by the Japanese capital market's reforms to support the initiation of mark to market accounting and direct financing and also other changes in the accounting system. The reforms of financial system under which this happened were launched by the government in November 1996. Accordingly, cross-holdings have been rapidly disintegrated.

Companies have to become more oriented toward running their businesses with an eye to share prices and shareholders in order to win the trust of shareholders and have to put more emphasis on investor relations from the viewpoint of facilitating capital procurement. Further, they can utilize means such as cancellation of their own stock through capital reserves in order to directly influence the market.

2.3.5.3 The Main Bank

“The term ‘main bank system’ refers to a system of corporate financing and governance involving an informal set of practices, institutional arrangements, and behaviors among industrial and commercial firms, banks of various types, other financial institutions, and the regulatory authorities.”

Some important institutional shareholders have the direct control in Japan, supported by stable and concentrated shareholding. The ‘main bank’ plays an important role in corporate governance among them. Although a company usually does business with several banks, it often has a special relationship with one of them. This main bank performs five important functions: it makes loans, and is usually its major creditor; it helps place the bonds issued by the firm; it owns shares, often, indeed, as the main shareholder; it offers payment settlement facilities; and it supplies information and management personnel.

These functions enable the bank to integrate three types of monitoring: ex-ante – basically, screening the company's applications for loans; interim – gathering information on the continuing performance of borrowers; and ex post – intervening in the affairs of firms in difficulties. It is not completely clear why banks have the motivation to carry out such a comprehensive monitoring on behalf of other shareholders and bank lenders. It seems to have resulted in a number of advantages for other financial institutions.

One of the most important characteristics of the Japanese main-bank system is that it supplies rather contingent governance. If efficiency is good, corporate deals can be managed by the governing management. When it deteriorates, the main bank, using its power as a lender and shareholder, intervenes in the management of companies to supervise downsizing and reorganization where necessary.

Such interventions often occur through the appointment of bank directors to the board of the company. Basic evidence is that the directorial influence of banks on client firms' board is much stronger than needed. This is also a sign for the importance of the main bank.

Moreover, the probability that a bank will send additional directors to a board is directly related to poor performance, particularly in comparison with other companies in the same industry. Other large shareholders also exercise an important but subsidiary influence. In addition, business partners, such as suppliers and clients, also monitor the performance of companies.

The main bank system functions as follows: the firm borrows or has equity owned by many banks, but the main financier is delegated responsibility for monitoring the firm. The bank and its main client firms reciprocally own equities, although there is a limit imposed on the bank's ownership, and proxy voting by the bank is not permitted. Corporate holdings in the banks are so dispersed that the banks are, in effect, managerially autonomous. In normal times, bank intervention in corporate governance is limited. However, corporate failure triggers a take-over mechanism that sees control rights shift to the bank. The ex post monitoring function is exclusively delegated to the main bank, which gives it incentives to engage in ex ante and interim monitoring more intensively than other financial institutions. If the main bank tries to shirk its responsibilities ex post, sanctions may be imposed by the regulatory authorities.

2.3.5.4 Characteristics of the Japanese Finance

A country's financial system is not only shown by its supply and demand situation but also by social, cultural and historical facts.

In the case of Japan, the heavy reliance on debt financing, rather than equity financing, is characterized by heavy bank-borrowing under the main bank system, a form of close and continuous bank-firm relationship.

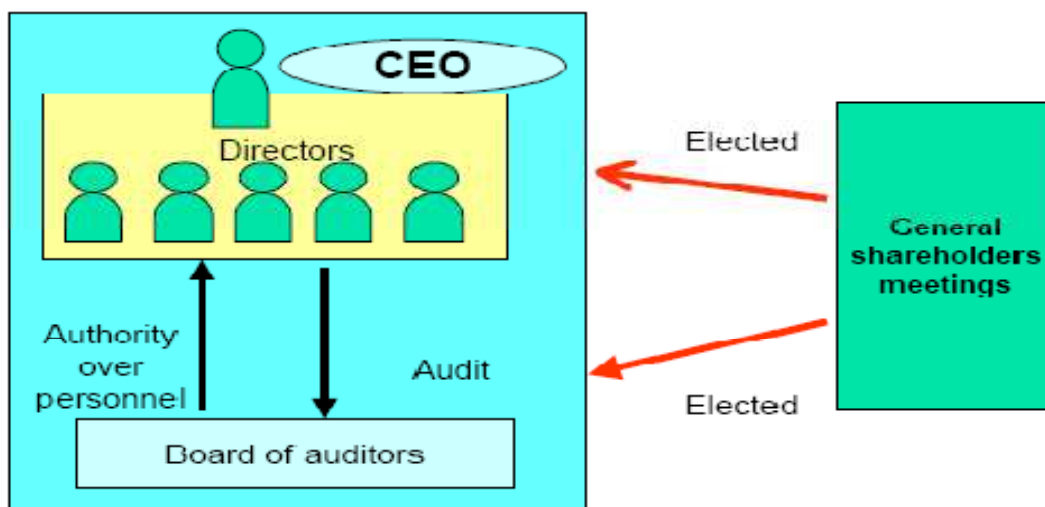
Japan, like other countries, has a private enterprise, private ownership, market economy. It also has its own specific features of capitalism. One important feature of the Japanese economy is that many markets are not impersonal. They are moderated by relationships among market participants founded upon the building and maintenance of trust through repeated transactions and honorable handling of unanticipated situations. Relationships are reflected in labor markets, subcontracting, buyers and suppliers, brand loyalty, and in banking, as well as other financial services.

2.3.5.5 Auditing Management

In most cases internal employees are promoted to the positions of auditors. This leads to an inability to prevent improper actions. The number of directors is large (average 20 to 40). This leads to an inability to debate management policies of companies. Almost all directors come from inside the companies and are unwilling to openly voice opposition to decisions of the top management.

The American style management system of dividing responsibilities between executive officers concentrating on the actual running of the business and directors supervising them and deciding on business policies from an overall company perspective is increasingly being adopted in Japan as well.

Figure 6. Auditing Management



2.3.5.6 The Role of Government in Japan

The Japanese government has played a rapidly changing and often subtle role in the industries in which Japan has achieved national competitive advantage. After World War II, its role was relatively heavy-handed. It directed the flow of capital and scarce resources (such as steel) into particular sectors, limited foreign entry, negotiated licenses of foreign technology, held down exchange rates, and provided various kinds of assistance in exporting.

At the time of early Japanese successes like steel, shipbuilding and sewing machines, this type of governing was constructive. Price was an important position in those sections where Japanese firms were competing. Many of the industries were capital intensive. Competitive advantage depended on modern and great opportunities. Government's leverages were powerful at this stage. Important Japanese industries were able to move beyond reliance on basic factor costs.

In these early successes, government was not working in isolation. Japan also had advantages in other determinants such as demand conditions or related and supporting industries that contributed to success, along with vigorous domestic competition. It is also important to realize that in other great and appreciable industries where Japan has not get any advantages for the industry the government's aggressive efforts were useless to get international competitors.

The Japanese success story is built on dynamism. Japanese firms have been pressured into rapid and continual innovation that has often anticipated world market needs. Companies have relentlessly upgraded their competitive advantages rather than resting on them. The Japanese economy has formed competitive clusters and upgraded its mix of industries.

The high rate of capital investment, rapid productivity growth, and rapidly rising income per capita are some of the many overall indicators that the process of upgrading is occurring.

Summarizing the facts about Japanese corporate governance system I can say that Japan has made a remarkable transition from the factor-driven to the innovation-driven stage in the post-war period. Its companies have evolved from competing on price to competing on advanced products and processes. Japan illustrates the process of upgrading industry as no other nation does. The system of determinants in Japan is enjoying the positive reinforcement effects of the "diamond", as one competitive

industry begets another and demand conditions upgrade. Momentum is widening the base of successful industries.

The recent appreciation of the yen has prompted even further upgrading of the sources of competitive advantage in Japanese industry. More and more companies are competing on differentiation, advanced product technology, and improved productivity. Personal incomes in Japan are rising. Domestic demand for many goods has also been limited by housing conditions and little leisure time. Working hours are already falling in major Japanese companies with the encouragement of government, and this change will fuel substantial growth in leisure-related industries. Growth in the number of second homes, coupled with a boom in remodeling existing homes and apartments will create new demand for furnishings and household products.

Given such a positive foundation, the continued health of the Japanese economy in the medium term is not in doubt. The most pressing immediate challenge for Japan is dealing with the large portion of the economy that is unproductive and has fallen outside the Japanese miracle and holds back national productivity. In the long run, the challenge for a nation like Japan is even more fundamental – how to retain dynamism and avoid a drift toward a wealth-driven economy. As profits accumulate, debt is repaid, and the pool of wealth grows, forces are set in motions which produce consequences that are seen in the economic histories of nations such as Germany, the United States, and Britain. The rate of productivity growth overall and in manufacturing has already slowed markedly in the Japanese economy.

2.3.5.7 Corporate Governance Codes in the Last Decade

The following corporate governance codes were published in the last 10 years: Revised Corporate Governance Principles (2001), Principles of Corporate Governance for Listed Companies (2004), Principles of Corporate Governance for Listed Companies (2009)

Table 3. The importance of different corporate control mechanisms in large non-financial firms in four economies

<i>Mechanism</i>	<i>United States</i>	<i>United Kingdom</i>	<i>Japan</i>	<i>Germany</i>
<i>Board independence / power over management</i>	Little	Little	Little formally, more influence informally via President's Club meetings	Greatest
<i>Importance of pay / performance relationship in top management compensation package</i>	Small	Unknown, probably small	Less	<i>Important for those firms that are owner-managed</i>
<i>Monitoring by financial institutions shareholders</i>	Little	Little	Substantial	Some
<i>Monitoring by non-financial firm shareholders</i>	Little	Little	Some	Substantial
<i>Monitoring by individual shareholders</i>	Little	Little	Little	Important for those firms that are owner-managed
<i>Frequency of hostile takeovers</i>	Frequent	Frequent	Virtually non-existent	Virtually non-existent

Source: Jian Chen, Corporate Governance in China, 2005 p.21

2.3.6 Latin Countries – Example: Spain

Corporate governance is here in a wider sense defined that it contains the institutional environment where the firm's decisions are laid down (e.g. legal, financial system, market for corporate control and the stock exchange); in addition its main direction contains the government characteristics like the type of ownership and concentration.

2.3.6.1 The Legal Regulation of Corporate Governance

Commercial law protected originally larger shareholders and left a closer space for small shareholders.

Like other Latin countries, Spain is a typical case of a country with weak anti-director rights, weak protection of minority investors, and concentrated ownership (La Porta et al. 1998). These features were accompanied by poor accountability and a lack of transparency. Spanish financial system's main reform contains two enactments to improve the protection of shareholders' rights.

2.3.6.2 The Financial System

In the past the Spanish financial system showed some similarities to the German system. Main sources of financial capital were industrial banks with strong cross-holdings and director-interlocks between banks and industry. Nowadays Spanish financial system experienced a lot of changes. This fact encourages investors. To demonstrate this I am going to list some institutions of Spanish financial system: banking system, institutional investments, stock exchange, risk capital and some characteristics of corporate control.

Spanish banking system, especially industrial banks played a privileged and protected role in Spanish economy. This changed when the competition disposed the sector to open the market. By 1998 Spanish banking system experienced remarkable consolidation through the privatization of the most state-owned banks and the fusion of the biggest 6 banks into two. The role of the banks in the Spanish economy is reflected by the corporate financing.

The existence of institutional investors (insurance companies, investment companies, pension funds and other forms of institutional saving funds) at the Spanish financial market in the early 90's was rather small compared with other OECD countries. By the end of the 90's multiplied the rate of institutional investors by three in the Spanish financial system, and reached the level of other Continental European countries. The importance of institutional investments can be explained through the existence of foreign capital, the growth of holding companies, support of state pensions by private pension funds and the financial deficit's transfer into household-savings.

Spanish stock exchange was small, underdeveloped and geographically segmented into four parts. In the 90's the stock exchange experienced the following processes: market capitalization, securization, and the modernization of administrative procedures. In the last few years the market capitalization and the number of firms at the Spanish stock exchange have grown, but they are still under those of Anglo-Saxon countries. We can say that there is a trend toward the Anglo-Saxon system.

Compared with other OECD countries the venture capital investments in Spain are underdeveloped. This fact can cause long-term effects. There is practically no market for corporate control between Spanish companies because of the registered firms' high ownership concentration and the minority shareholders' rights.

2.3.6.3 Ownership Structure

In Spain, the owner's identity and their shareholdings are yearly reported by the Banco de España. By the early 2000's 45% of Spanish firms were owned by domestic capital (domestic firms, private persons, state).

Firms listed at the Spanish stock exchange have another type of ownership structure than other Continental European firms, especially because of the consolidation of the stock exchange in the 90's. In 1996 investors of foreign institutions were the main shareholders, ahead of private persons and families.

Spanish firms try to come up with more developed countries by establishing new institutions together with the legislation and establish inactive ones like the stock exchange. Other characteristics of Latin government systems remain like the leading role of banks and ownership concentration.

2.3.6.4 Changes in Corporate Governance

Spain was traditionally characterized by high state ownership, strong state intervention, and an important role for banks. The country had a special own road from which a new governance has grown with own traditions.

It has adopted practices from different countries, but in particular from the Anglo-Saxon model.

Present Spanish corporate governance has the following characteristics: new role of the state as regulator, newly privatized firms are in the hands of core investors (many of them are foreign investors), higher free capital flow at the stock exchange, but small own capital market, weak market for corporate control, growing transparency because of the introduction of Anglo-Saxon practices, accountability and preferably more efficient board. Spain has a strong bipolar labor market economy, with safer and better paid jobs in bigger firms, multinational companies, and state-owned organizations. Recently further changes lead often to layoffs because of the growing pressure of corporate governance. They also require more flexible working and also payments became more unstable.

2.3.6.5 Corporate Governance Codes in the Last Decade

The following corporate governance codes were published in the last ten years: The Aldama report (2003), Decálogo del Directivo (2004), IC-A: Principles of Good Corporate Governance (2004), IC-A: Principles of Good Corporate Governance for Unlisted Companies (2005), Draft Unified Code of Recommendations for the Good Governance (2006), IC-A: Code of Ethics for Companies (2006), Unified Good Governance Code (2006).

3 Are These Systems Converging?

3.1 Dimensions of Corporate Governance

The board, the managers and the stockholders have a vertical and a horizontal dimension. The horizontal dimension is between dominant stockholders and dispersed stockholders. The horizontal focus is on preventing or minimizing the shifts in value from dispersed outsiders to controlling inside stockholders. That dimension of inquiry is paler in the United States than it is in Europe. Lacking a single shareholder-controller, the typical American firm has fewer horizontal problems, but more vertical problems.

3.2 Changes in the Corporate Governance Systems in the Last Decades

In the last decades signs of changes can be experienced in the structure of corporate governance systems on many fields.

Managers should act in the interest of shareholders including minority or even controlling. There are three factors which drive toward convergence:

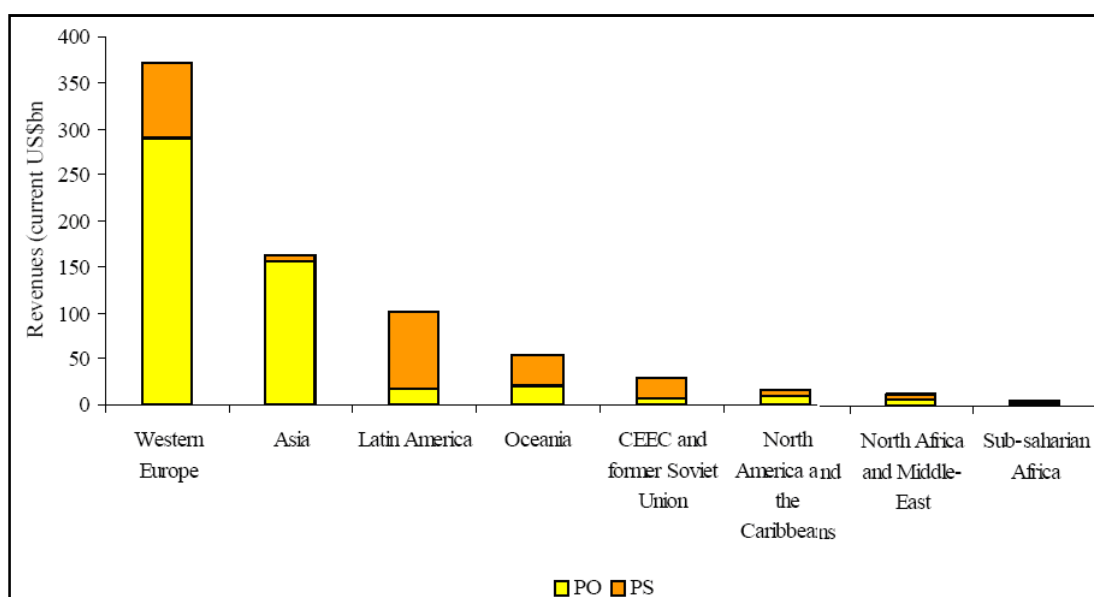
- The competitive pressure of global commerce
- The failure of alternative models
- Shift of interest group influence in favor of an emerging shareholder class

An important fact is that change of law is also necessary for further convergence.

But there are also other reasons why corporate governance is currently such a prominent issue.

- World-wide privatization in the last three decades: it was an important phenomenon in Latin America, Western Europe, and Asia and in the former Soviet block (but not in the United States).

Table 4. Privatization Revenues by Region 1977-97



Source: Bortolotti, Fantini and Siniscalco (2000)

Note: PO-Public Offerings; PS-Privat Sales

Privatization wave caused also problems in corporate governance. It was not clear how newly founded corporations should be owned and controlled. Shinn (2001) said that the state's new role as a public shareholder in privatized corporations has been an important source of impetus for changes in corporate governance practices worldwide.

- Pension funds and active investors: household savings through mutual and pension funds became more important. This fact influences corporate governance.

Table 5. Financial Assets of Institutional Investors in OECD Countries

	Value Assets Billion U.S.\$		Asset growth	% Total OECD Assets	Assets as % GDP		% Pension Funds	% Insurance Companies	% Invest. Companies	% of Assets in Equity	% OECD Equity
	1990	1996	1990-96	1996	1990	1996	1996	1996	1996	1996	1996
Australia	145.6	331.1	127.4	1.3	49.3	83.8	36.3	46.0	14.1	52	1.9
Austria	38.8	90.1	132.2	0.3	24.3	39.4	3.0	53.3	43.7	8	0.1
Belgium	87.0	169.1	94.4	0.7	44.4	63	6.5	49.0	41.0	23	0.4
Canada	332.8	560.5	68.4	2.2	58.1	94.6	43.0	31.4	25.7	9	0.6
Czech Republic	-	(1994) 7.3	-	-	-	-	-	-	-	-	< 0.1
Denmark	74.2	123.5	66.4	0.5	55.6	67.1	25.2	67.2	7.6	31	0.4
Finland	44.7	71.2	59.3	0.3	33.2	57	-	24.6	3.4	23	0.2
France	655.7	1,278.1	94.9	4.9	54.8	83.1	-	55.2	44.8	26	3.7
Germany	599.0	1,167.9	95.0	4.5	36.5	49.9	5.5	59.2	35.3	14	1.8
Greece	5.4	35.1	550.0	0.1	6.5	28.5	41.6	12.3	46.2	6	< 0.1
Hungary	-	2.6	-	< 0.1	-	5.7	-	65.4	26.9	6	< 0.1
Iceland	2.9	5.8	100.0	< 0.1	45.7	78.7	79.3	12.1	8.6	6	< 0.1
Italy	146.6	484.6	230.6	1.9	13.4	39.9	8.1	30.1	26.6	12	0.6
Japan	2,427.9	3,563.6	46.8	13.7	81.7	77.6	-	48.9	12.6	21	8.3
Korea	121.9	277.8	127.9	1.1	48	57.3	4.9	43.4	51.7	12	0.4
Luxembourg	95.9	392.1	308.9	1.5	926.8	2139.1	0.8	-	99.2	-	< 0.1
Mexico	23.1	14.9	-35.5	0.1	8.8	4.5	-	32.9	67.1	17	< 0.1
Netherlands	378.3	671.2	77.4	2.6	133.4	169.1	55.2	33.5	9.9	28	2.1
New Zealand	-	24.9	-	0.1	-	38.1	-	31.7	17.3	37	0.1
Norway	41.5	68.6	65.3	0.3	36	43.4	14.9	70.1	15.0	20	0.2
Poland	-	2.7	-	< 0.1	-	2	-	81.5	18.5	23	< 0.1
Portugal	6.2	37.5	504.8	0.1	9	34.4	26.4	27.2	45.1	9	< 0.1
Spain	78.9	264.5	235.2	1.0	16	45.4	4.5	41.0	54.5	6	0.2
Sweden	196.8	302.9	53.9	1.2	85.7	120.3	2.0	47.3	19.8	40	1.4
Switzerland	271.7	449.8	65.6	1.7	119	77.3	49.3	40.2	10.5	24	1.2
Turkey	0.9	2.3	155.6	< 0.1	0.6	1.3	-	47.8	52.2	8	< 0.1
U.K.	1,116.8	2,226.9	99.4	8.6	114.5	193.1	40.1	45.9	14.0	67	16.6
U.S.	6,875.7	13,382.1	94.6	51.5	123.8	181.1	35.6	22.6	25.2	40	59.7
Total OECD	15,758.3	26,001.4									
Mean OECD			94.6		49.3	83.8	26.3	33.6	24.9	22	

Source: Marco Becht, Patrick Bolton, Ailsa Röell, Corporate Governance and Control, 2005 (Finance Working Paper N° 02/2002), Table 1

- Mergers and takeovers: there was a hostile takeover wave in the USA in the 1980s and in Europe in the 1990s which caused public debate on corporate governance.
- Deregulation and capital market integration: there are rules to protect and encourage foreign investment in Eastern Europe, Asia and other emerging markets. Main goal is to integrate world capital markets and the growth in equity capital.
- The 1998 Russia / East Asia / Brazil crisis occurred because of the weak corporate practices
- There were scandals and failures at major USA corporations

3.3 Why is there Convergence at all?

The investment and trade liberalization lead to the pressure on companies to assimilate. Globally provided products are in competition with domestic products in price and quality. This fact leads to convergence of cost structures and firm organization which has an effect on decision making and behavior.

International labels globalize customers' taste and choices. Convergence is the effect of globalization in capital market.

Many global providers of market finance use global uniform standards. These key requirements should be satisfied everywhere. Another important fact is that these requirements leave a free space for differences among countries.

The 2002 Investor Opinion Survey by McKinsey found that institutional investors said they would pay very high premium for well governed corporations.

Crédit Lyonnais (CLSA) reported 2001 and 2002 that corporate governance is correlated to stock valuations and financial performance.

Financial markets have shown that globalization leads to the change of long-established domestic patterns of finance.

3.4 Convergence toward what?

Convergence is perhaps meant as a victory of one system above the others. But fact is that management, governance and business plans are closely integrated in most companies.

The main task of globalization should be to minimize the risk between investors and investees.

Because of the importance of Anglo-Saxon institutions the practices and norms are benchmark for the reforms. The high quality is more and more important for the reformers. In some respects, the Anglo-Saxon system is already closer to the Continental European.

There are three main areas of convergence:

- *Normative background:* the hardening of norms is a very important step toward convergence. The principles of the OECD, ICGN, IIF lead to convergence around the world. The Anglo-American regulatory system is changing towards the European (the senior corporate officers have to certify the fairness of corporate accounts; corporate executives and

directors should face criminal sanctions if they are found to have deceived shareholders; prohibition on company lending to senior executives). Since the listings on stock exchanges in the U.S. have been revised in recent time, also European companies can be listed on American Stock Exchanges. The NYSE rules are benchmark for listing requirements.

“Notwithstanding legal differences among EU member States, the trends toward convergence in corporate governance practices in EU member states appear to be both numerous and more powerful than any trends toward differentiation. In this regard, the codes – together with market pressures – appear to serve as a converging force, by focusing attention and discussion on governance issues, articulating best practice recommendations and encouraging companies to adopt them.”⁶

Divergence is generated in the EU by legal provisions and mandatory requirements. Market-based incentives would be better for the governance in many European countries.

- *Board independence and structure:* there are more independent boards. The role of the audit committee and convergence with two-tier board increases. The tendency is to arise the board's independence which can happen through the “significant” number of non-executive independent directors. In the US this number is the half of the board's seats. These independent directors are not the only solution to show the independence in the board: the board is nominated by the own candidates if shareholders are highly dispersed. If the ownership structure is not too fragmented, the best solution is if direct shareholders represent on the board.

Cumulative voting works as follows:

“Cumulative voting allows minority shareholders to elect their board representatives directly. In the more common non-cumulative voting system the election of each director is effectuated by majority voting; every voting share has one vote. Typically, in cumulative voting, the number of votes one shareholder may cast corresponds to the number of his or her voting share multiplied by the number of seats on the board. The entire board is

⁶ „Comparative Study of Corporate Governance Codes Relevant to the European Union and its Member States,” Weil, Gotschal, and Manges LLP, 2002. Available upon request from Weil, Gotschal and Manges (www.weil.com).

elected in one round of voting, allowing the minority to concentrate its votes on one or two candidates.

For a cumulative voting system to be implemented successfully, the selection of board members should not be staggered (in general, staggered boards in which only a few directors come up for re-election in one given year present few benefits for shareholders and are often used as a device to discourage hostile takeovers). In addition, the nomination process should allow appointment of directors who are not approved by management (or the incumbent board).

Cumulative voting is the default method in the U.S. Model Business Corporation Act as well as in the corporate law of Delaware and New York, where the majority of large U.S. corporations are registered. However, only a few U.S. states, including California, have made it a mandatory requirement. Russia is the only country to have introduced a fully mandatory cumulative voting requirement in its 1996 company law.”⁷

There is also convergence in the opposite direction. In Japan for example the commercial code was changed in 2002 which allows companies to choose their structure of governance (among the old scheme that there is a separate audit board and the new scheme which is similar to the U.S. system).

- *Accounting and disclosure standards and the regulation of audit:* Accounting and disclosure standards seem to converge globally, too. There are already several standards which are used worldwide. Such standards are for example the IAS (International Accounting Standards) or the US GAAP (generally accepted accounting principles). Many European firms present their accountings according to these principles. In Japan there has been a change in accounting standard since 2000. They have been bringing their rules closer to IAS. China is also on the way bringing the accounting standards closer to those of IAS.

In the U.S. legislative proposals suggest that U.S. GAAP should move toward the IAS.

⁷ Stilpon Nestor, LL.M., International Corporate Governance Convergence, page 55, Box 3.1

There are already many signs for convergence of different countries. More and more Japanese firms are listed for example on NYSE or London Stock Exchange. The Sarbanes-Oxley Act is also a step of convergence of American and British firms towards the Continental European system. Goal of the 8th EU directive tries to regulate the EU states' corporate governance systems, which is I would say is the "European version" of the Sarbanes-Oxley Act. The separation of CEO and Chairman of the Board in Anglo-Saxon countries moves this system towards the Continental European two-tier system.

OECD's Millstein Report argues that fairness, transparency, accountability and responsibility help national corporate governance systems reducing specific differences.

3.5 Convergence based on firm performance

I think that ownership structure has a significant impact on the functioning of corporate governance system, because owners' decision-making can be influenced and this has an effect on corporate life and governance.

The choice of an optimal ownership structure is firm specific and endogenous. The success of one ownership structure can be hardly compared with an other one because of the different circumstances. Generally the measurement of corporate governance quality is very difficult.

One approach which makes easier to find out if ownership structures are converging is the arrangement of countries based on their legal systems in two groups. We distinguish between common law and code law countries. In common law countries there can be many shareholders within a firm and they are also strong protected by law mainly in the interest of minority shareholders. Shareholders are more concentrated in code law countries; they are not as strong protected as in common law countries. Complex ownership arrangements are typical of code law firms. In case of concentrated ownership we distinguish between cash-flow rights and voting rights of shares, which means, that owning a relatively small proportion of the shares capital can be enough to control the firm.

In Japanese firms for example controlling shareholders and cross-shareholdings are common and have a big influence on corporate governance. There exist business groupings (keiretsus) and the main bank acts as shareholder. The main bank also lends money to other firms within one keiretsu so it becomes both a shareholder and a debt-holder. This arrangement can lead to reduction of agency costs. In the board of directors there must be one representative of the main bank to avoid information asymmetry between firm and bank. Since the main bank plays a very important role within the keiretsus, a representative of it can be placed on the board of that firm which acts poorly.

The best measurement of effectiveness of a firm's functioning is its performance. Now I would like to give an overview about the relationship between firm performance and some stakeholders.

3.5.1 Board structure's influence on firm performance

The independence of directors is one of the most important factors of corporate governance. Legal requirements can be easier met by the board and they can also better control management's actions. Furthermore the interest of other stakeholders can be more comprehensive protected. If strong monitoring practices are absent outside directors can act as they are responsible for monitoring the firm. For those firms whose board mainly consists of outside directors a new appointment of an outsider does not raise the shareholder value.

There were many studies which examined the connection between the performance of firms with controlling shareholders and the board structure. Dahya (2008) reported about a positive relationship and assessed that this effect is stronger in those countries where the legal protection of minority shareholders is weaker. The firm value can be increased by a dominant shareholder, if an independent board is appointed, especially in those countries of weak legal shareholder protection.

The board structure can be examined also from the view of CEO. If the CEO is also the chairperson, we speak about duality. This type of board structure is typical of US companies. Fama and Jensen (1983) argue that agency costs can be reduced and firm performance can be enhanced if CEO and chairperson are separated. The greatest

influence has the chairperson over a board's functioning. This means that decision management and decision control should be separated within the firm. Corporate governance codes advise in UK that the roles of chairman and CEO should be separated. Generally firms choose endogenously their own leadership structure.

3.5.2 Ownership structure's influence on firm performance

Berle and Means (1932) reported, that managers are not forced to maximize corporate efficiency if ownership and control are separated. Jensen and Meckling (1976) think that higher insider ownership minimizes agency conflicts. Shleifer and Vishny (1989) argue that a certain degree of insider ownership allows effective control and there exists a non-value maximizing behavior. A firm's ownership structure can be also impacted by its performance. Poorly performing firms' shares are often sold by the shareholders which changes the ownership structure. Shareholders are profit-maximizers so this kind of behavior is endogenous in each firm.

La Porta (1999) argues that the outside shareholders' controlling often causes agency problems, since they use firm's resources for their own benefit and this reduces shareholder value. A more concentrated ownership structure often leads to reduction of firm value which is appropriated by large shareholders.

Differences between US and Japanese firms regarding ownership-performance relation are important which are shown first of all in corporate monitoring and information sharing. Ownership structure in Japan is characterized by the keiretsus, where the dominant shareholding firms are widely held.

3.5.3 Outside blockholders' influence on firm performance

Large stakeholders are active at monitoring a firm's performance. Increasing number of outside shareholders can be an indicator for the improvement of corporate governance. Shleifer and Vishny (1997) argue that if large shareholders come closer to control, they try to generate private benefits which are not shared with minority shareholders.

Hedge funds typically play an important role in corporate governance and corporate control. In the United States hedge funds are rather in profitable firms usual. These are short-term investments and investors get soon profit. Hedge funds' influence on a firm's performance in long-term is rather mixed.

3.5.4 Influence of the market for corporate control on firm performance

Managers can ensure their positions within a company by using anti-takeover devices if the takeover market is active. Bebchuk (2009) finds that external government forces can be hindered if management and board try to slow down hostile takeovers. If there are internal barriers for protection against hostile takeovers, value destruction can occur. Moreover, if the adoption of anti-takeover devices is disclosed, there can be negative abnormal returns concerning governance structure. Gompers (2003) reported that firms with stronger shareholder rights have higher abnormal returns.

3.5.5 Relationship between CEO turnover and firm performance

Good governance can influence board decisions especially in case of critical tasks. One of the most important decisions of board is the replacement of CEO if the firm is acting poorly. It has a serious impact on company's investment, operating and financing decisions. CEO turnover (internal and external) was examined by Kaplan and Minton (2006) from 1992 to 2005 in large US firms. They reported that boards return to poor performance relative to the industry. Furthermore they respond also to poor market performance and industry. Between the relation of firm performance and CEO turnover ownership plays an important role. Boeker (1992) finds among US firms, if a firm is poorly performing and CEO has a high proportion of ownership, it is more probable that CEO will be dismissed than in case of lower proportion of ownership. Dahya (1998) in turn finds that in UK firms happens the opposite of it. If the CEO's stake in the company is less than 1% the most probable is that he will be removed. Kato and Long (2006) reported that the relationship of CEO turnover and firm's performance in China is strengthened by large controlling shareholders. Volpin (2002) examined the same relationship in Italy and finds if the control over the firm is in one hand and this one

shareholder owns less than 50% of the firm's cash flow rights there exists a low sensitivity between performance and CEO turnover. Gibson (2003) examined 1200 companies in 8 countries regarding effectiveness of corporate governance due to the relationship between firm performance and CEO turnover. He argues if the firm performance is poor CEOs are more likely to lose their positions. When a firm has a two-tier board structure, turnover is higher than in case of one-tier board structure. In Japan the situation differs from other countries. Those firms which are in financial trouble receive an outside director from the main bank. The probability of CEO's dismissal at poorly performing is higher than in other countries.

Based on the studies above about CEO turnover – firm performance relationship I find that the most important monitoring role is played by institutional investors. The inverse relationship between firm performance and CEO turnover is strengthened by both external and internal measures of corporate governance.

3.6 Convergence of corporate governance: further approaches and studies

Hansmann and Kraakman (2001) point out that the goal of corporate governance is shareholder value maximization. Gilson (2004) distinguishes between convergence in form and convergence in function. If convergence in form happens, legal frameworks and institutions are converging. In case of convergence in function, countries have different rules and institutions but they perform the same function.

Khanna, Kogan and Palepu (2006) find another approach for convergence. They differentiate between de jure (similar corporate governance laws) and de facto (actual practices converge) convergence.

The following Table 6 shows an illustrative listing about different dimensions of corporate governance which is also used for empirical studies.

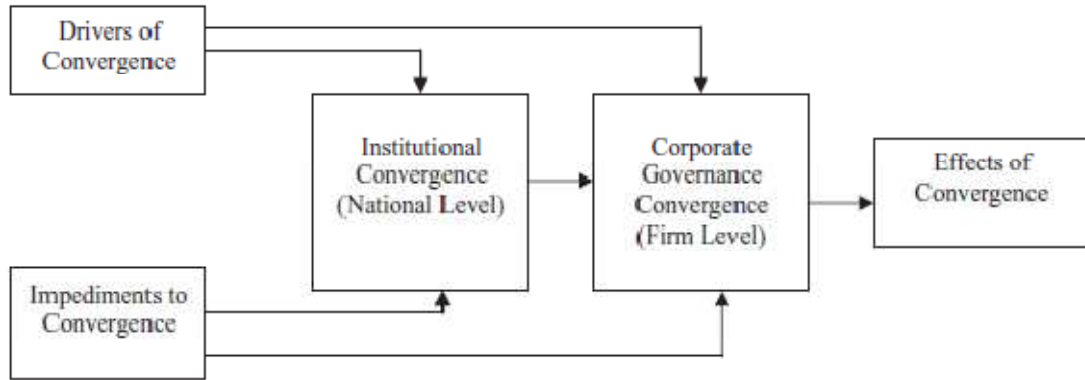
Table 6. Convergence dimensions in corporate governance

Level	Dimensions
Institutional/ National Level	1. Adoption of good corporate governance codes 2. Legal reform or regulatory changes • Requirement of outside directors • More stringent disclosure • Greater protection of minority shareholders and creditors • Relaxed takeover rules 3. Country level changes • Spread of CEO option pay • Trend in hostile takeovers • Presence of institutional investors
Firm Level	1. Adoption or increase in the number of outside directors 2. Greater information disclosure 3. Adoption and coverage of executive stock option pay

Source: Yoshikawa, Toru; Rasheed, Abdul A., Convergence of Corporate Governance: Critical Review and Future Directions, 2009, Table 1

3.6.1 Drivers and Impediments of Convergence

Figure 8. Convergence in Corporate Governance: An Analytic Framework



Source: Yoshikawa, Toru; Rasheed, Abdul A., *Convergence of Corporate Governance: Critical Review and Future Directions*, 2009, Figure 1

Convergence is the competition over “best practices” among countries. The integration of financial markets is one of the most important drivers. It is a primary driver because national financial markets became more and more integrated. Each action is very fundamental for convergence which also affects ownership structure’s transformation. The participation on international stock exchanges can increase firm valuation. Another way of integration is through cross-border mergers and acquisitions. Product market integration and the resulting global competition will have the same effect in the long-run (Khanna and Palepu, 2004). Corporate governance can be seen as a new technology or innovation which can be adopted as best practices. This leads to convergence. The first code of good governance was the Cadbury Committee report (UK, 1992) which was followed by some developments. Aguilera and Cuervo-Cazurra (2004) find that countries with weak shareholder protection, high government liberalization, and a strong presence of foreign institutional investors tend to develop the codes.

The following factors are the most important impediments to convergence:

- Path dependence is an important impediment to convergence because in each country there are different historical events (e.g. banks play different roles in each country). Bebchuk and Roe (1999) distinguish between structure- and rule-driven path dependence. Structure-driven path dependence means that an ownership structure has a direct influence on subsequent ownership structures. The reasons of this kind of path dependence are rent seeking and efficiency. In case of rule-driven path dependence the initial ownership structure influences the follow structure by the influence of administer company with legal institution. The reasons are affections of other interest groups.
- Complementarities are also impediments to convergence. Schmidt and Spindler argue a system is complementary if elements fit together well.
- Multiple optima: Khanna (2006) argues that complementarities can induce multiple optima. Nations can end up choosing different bundles of practices that yield equivalent long-run corporate governance. There is only little chance to change from one system to another.
- Rent seeking by interest groups: governance structures can exist in long-run even if they are suboptimal, because some parties resist change. Their private benefits would reduce if change occurs.
- Differences in property rights regimes
- Economic nationalism and differences in social norms

- Lack of consensus on an ideal: there is no optimal ownership structure, private benefits are always considered.

During the last decades many studies were made on various governance dimensions.

Table 7 shows a summary of studies on institutional/national and firm levels.

Table 7. Convergence dimensions in corporate governance

Author(s) and year of publication	Time period	Sample and Context	Variables	Research Question and Findings
Institution-Level Research				
Guillen, 2000	Late 1970s/Early 1980s to late 1990s	17-43 countries (sample size varies by the governance indicator)	Change in six governance indicators: stock of FDI; presence of institutional investors; balance between debt and equity finance; adoption of long-term CEO pay; and announced hostile takeovers	Investigates the shift in six corporate governance indicators in up to 43 countries and finds that no major shifts took place from the late 1970s/early 1980s to the late 1990s.
Aguilera and Cuervo-Cazurra, 2004	1978–1999	49 countries	DV: whether a country developed a governance code; number of codes developed IV: country's legal system; anti-director rights; economic integration; government liberalization; foreign institutional ownership; domestic capital market	Investigates whether various country level variables would be positively related to the adoption of corporate governance codes. It was found that codes were developed in response to both endogenous and exogenous factors. It is argued that efficiency needs and legitimization pressures led to the adoption
Schneper and Guillen, 2004	1988–1998	37 countries	DV: announced hostile takeovers IV: shareholder rights; labor rights; bank rights	Examines the effects of stakeholder power on the spread of hostile takeovers in 37 countries and finds that shareholders', workers', and banks' rights affected the adoption. Announced hostile takeovers increased with greater shareholders' rights and decreased with greater workers' and banks' rights.
Goerger, Martynova and Rennboog, 2005	1990–2004	30 European countries	Changes in takeover regulations	Examines the changes in takeover regulations, especially on adoptions of the mandatory-bid rule, the equal-treatment principle, the squeeze-out rule, and the use of voting caps, non-voting shares, dual-class and multiple voting shares. The study found convergence in the regulations.
Toms and Wright, 2005	1950–2000	The US and UK	Historical analysis of changes in corporate governance systems	Examines the changes of corporate governance system in the US and UK during the last 50 years and shows that monitoring by shareholders increased in both countries.
Khanna <i>et al.</i> , 2006	1998	49 developed and developing countries	DV: legal protection of shareholders and creditor protection IV: degree of capital market, product market, and labor market integration between pairs of countries	Examines the similarity and convergence of corporate governance practices between economically interdependent countries. The study found a strong relationship between economic integration and <i>de jure</i> governance similarity but no evidence of <i>de facto</i> similarity.
Zattoni and Cuomo, 2008	1992–2005	44 countries: 29 civil law countries and 15 common law countries	1 st study – Comparison of the diffusion of governance codes among countries with different legal systems 2 nd study DV: Coverage of codes; Strictness of code recommendations IV: Common law countries	Examines the adoption of corporate governance codes in civil law countries compared with common law countries. Civil law countries issued codes later than common law countries and the codes in civil law countries are more ambiguous and lenient
Firm-Level Research				
Tuschke and Sanders, 2003	1996–1999	76 listed German firms	DV: adoption of stock-based incentive plan; adoption of transparent accounting standards (GAAP or IAS) IV: ownership concentration	Investigates the effect of ownership on the adoption of stock option pay and transparent accounting practices of German firms. There is an inverse U-shaped relationship between ownership concentration and these governance reform measures.

Khanna and Palepu, 2004	1981–2001	Infosys, Indian software industry	Qualitative study	Investigates corporate governance practices of Infosys and finds that the firm adopted US corporate governance practices to attract talent, not because of global capital market pressure.
Khanna <i>et al.</i> , 2004	2002	794 firms in 24 countries	DV: information disclosure (overall and financial transparency) IV: interactions with US financial (listing, equity investment, FDI), product (export operations) and labor (business travel) markets	Examines whether exposure to US markets led to greater disclosure practices of foreign firms. Findings indicate that greater interactions with US markets were associated with similarities in disclosure practices of foreign firms.
Fiss and Zajac, 2004	1990–2000	112 listed German firms	DV: shareholder value orientation (value-based management control system, stock option plans for management, international accounting standards) IV: ownership structure (banks, firms, government, families, other institutions); CEO's age and education	Investigates the effects of ownership structure and CEO characteristics on the adoption of shareholder-oriented practices of German firms. Results indicate that block holdings by return-oriented and pro-business shareholders led to the adoption of shareholder value orientation. The study also found that some firms espoused shareholder value-oriented practices but did not implement them. Powerful actors reduced the likelihood of “decoupling.”
Buck and Shahrim, 2005	2000/2001	7 matched German and UK firms	DV: coverage of executive stock options (ESO), performance conditions of ESO	Compares 7 German and UK firms in terms of the coverage of ESO and performance conditions attached to ESO. Findings show that the US-style ESO have diffused among large German firms, but with distinctly un-American features.
Khanna <i>et al.</i> , 2006	2001	495 firms in 25 emerging economies	DV: <i>de facto</i> similarity to US corporate governance standards (CLSA index) IV: exposure to global capital markets, global product markets, and global labor markets	Examines the relationship between global market exposure and adoption of US corporate governance practices in firms in 25 emerging economies and finds that no such relationship exists.
Sanders and Tuschke, 2007	1996–2000	89 listed German firms	DV: adoption of stock option plans IV: associations with US markets (US stock listing and sales); executives' business education; adoption of transparent accounting standards (GAAP or IAS); board interlocks; industry adoption	Investigates the impact of exposure to US markets of German firms on the adoption of stock option plans and finds that the adopters were likely to have greater degree of associations with US markets and had experience of adopting other “institutionally contested” practices.
Yoshikawa, Tsui-Auch and McGuire, 2007	1990s–2005	Sony, Japanese firms	Qualitative study	Examines how global market exposure led Sony to reform its corporate governance practice in the late 1990s and how its board practices had diffused to other firms which in turn led to regulatory reforms in Japan.
Markarian <i>et al.</i> , 2007	1995 and 2002	75 large global firms	Comparison of governance and disclosure practices between 1995 and 2002	Examines the changes in governance practices such as CEO/Chair duality, the percentage of independent directors, and board size as well as the degree of governance-related disclosure of large global firms and finds that there was an increase in independent directors and the amount of information disclosed in 2002 compared with 1995.
Bozec, 2007	2002	230 Canadian firms	DV: board composition; executive compensation; shareholder rights; information disclosure IV: US cross-listing; US operations	Examines whether US market interaction is related to the US governance practices among Canadian firms and finds that greater US market interaction is associated with US governance practices.
Chizema, 2008	2002–2005	126 German firms	DV: disclosure of individual executive compensation IV: institutional, dispersed, and state ownership; prior adoption of shareholder-oriented practices; firm size; size of the supervisory board; firm age	Examines whether ownership patterns affect the disclosure of individual executive compensation. Results indicate that institutional ownership, dispersed ownership, state ownership, and prior adoption of shareholder-oriented practices are positively associated with disclosure.

Source: Yoshikawa, Toru; Rasheed, Abdul A., *Convergence of Corporate Governance: Critical Review and Future Directions*, 2009, Table 2

3.7 Takeover regulation's convergence

Takeover regulation is an important element of corporate governance. Changes in takeover regulation can affect changes in ownership and control. "There is as yet no consensus as to the best system of corporate law and whether legal convergence should be encouraged on a global level. Some law and economics academics proclaim the superiority of the shareholder-oriented corporate governance system, characterized by well-developed capital markets, the prevalence of institutional investors, good investor protection, a market for corporate control, and a focus on shareholder value."⁸

La Porta (1997) argues that in those systems which exist in common law countries, investors show a higher willingness to pay return to the shareholders.

Hansmann and Kraakman (2000) find that if corporate law's shareholder-centered ideology is accepted by countries, this would lead to corporate-law reforms which mean that results would be achieved in the convergence of corporate governance towards the Anglo-Saxon system. Convergence makes only in that case sense if political and institutional barriers are eliminated. Gilson (2000) argues that a contractual convergence of best corporate practice should exist.

"Although takeover regulation is mainly seen as a mechanism to facilitate efficient corporate restructuring (Burkart(1999)), it is also an important in terms of mitigating conflicts of interests between diverse company constituencies such as management, shareholders, and stakeholders. Takeover regulation does not only curb conflicts of interests related to transfers of control, but also has a more general impact on the agency problems between management and shareholders, minority and majority investors, and other stakeholders. As such, it constitutes an important element of a corporate governance system, its corporate governance role, however, depends on other characteristics of the governance system such as ownership and control."⁹

In the last decade, the European Commission tried to harmonize takeover regulation. A Takeover Directive was created in 2004, but it was not adopted. There is no consensus

⁸ Goergen Marc, Martynova Marina, Renneboog Luc, Corporate Governance Convergence: Evidence From Takeover Regulation Reforms in Europe, page 3

⁹ Goergen Marc, Martynova Marina, Renneboog Luc, Corporate Governance Convergence: Evidence From Takeover Regulation Reforms in Europe, page 6

about the best corporate governance system, yet. It is still a question if EU countries change their regulation in order to have a common corporate governance system. There have been already steps taken toward convergence, but this does not mean that corporate governance systems are converging towards a single optimal system.

4 Conclusion

Since globalization is happening in the world, convergence of corporate governance systems became also common. There will be probably no country which adopts regulations and rules completely of another country. Convergence is rather the movement of different systems towards a common mean. Capital will flow into those countries which are more globalized and stable. I think that convergence will go on but there will never be a “best corporate governance system”.

As it was shown in the thesis, there are many different cultures and countries and they cannot really be compared to each other. In my point of view is the ownership structure the most sensible factor regarding convergence of different systems. Ownership structure functions as an endogenous outcome of decisions. Stakeholders can be influenced at decision making by many factors. They do not always decide objectively. If a privately held company decides to sell shares and a publicly held company has a secondary distribution, their ownership structures can be changed and become more diffuse. If takeover exists, those decisions who own shares are reflected in ownership structure. The profit-maximizing attitude of shareholders influences decision-making mostly.

I think that the most important thing in order to have a well performing company is to keep in mind that stakeholders shall find always the possible “best solution” for the firm. Owners and managers should work together and they should consider firm’s interest and not the own profit.

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Deutscher Abstract

Diese Diplomarbeit beschäftigt sich mit der Konvergenz von Corporate Governance Systemen. Im ersten Teil der Arbeit werden der Begriff Corporate Governance definiert sowie die grundlegenden internen und externen Mechanismen bestimmt. Außerdem werden die angelsächsische, die germanistische, die japanische und die spanische Corporate Governance Systeme mit Schwerpunkt auf Eigentümerstrukturen beschrieben.

Das nächste Kapitel behandelt die Dimensionen von den erwähnten Strukturen und die Entwicklung der Corporate Governance Systeme in den letzten Jahrzehnten. Die Möglichkeiten zur Konvergenz vor allem aufgrund von Unternehmenserfolg und Übernahmeregulierung aus der Sicht der verschiedenen Interessensgruppen werden besprochen. Es wird auch eine Zusammenfassung über die Forschungstätigkeiten, die Hindernisse und die Treiber der Konvergenz beschrieben.

Da die Globalisierung nicht zu vermeiden ist, spielt die Konvergenz von Corporate Governance Systemen in den letzten Jahrzehnten auch eine sehr wichtige Rolle. Wahrscheinlich wird es nie ein Land geben, das die Regeln von einem anderen Land vollkommen übernimmt. Konvergenz ist eher die Bewegung von einem System Richtung ein anderes.

Um ein gut funktionierendes Unternehmen zu haben, ist wichtig, dass die Interessensgruppen immer die beste Lösung für die Firma zu finden versuchen.

Curriculum Vitae

Linda Tamas-Szora wurde am 02. April 1981 in Budapest, Ungarn geboren. Sie besuchte die Österreichische Schule (Oberstufenrealgymnasium) in Budapest. Nach Abschluss der Matura studierte sie Internationale Betriebswirtschaft an der Universität Wien. Während des Studiums verbrachte sie ein Praktikumssemester bei einer Beratungsfirma in Ungarn. Ihre Vertiefungen absolvierte sie aus Produktionsmanagement und Finanzdienstleistungen. Linda Tamas-Szora verfasste ihre Diplomarbeit über „Convergence of Corporate Governance Systems“ unter Betreuung von Professor Burcin Yurtoglu.