Corporate Governance as a Bundle, theory and case rehearsal

Corporate governance practices differ between countries (Weimer & Pape, 1999)

- The concept of firm
- The board system
- Salient stakeholders influence on management
- The importance of stock market

There are several perspectives in corporate governance differences

- External market for corporate control
- The ownership concentration
- Performance based executive compensation
- The time horizon of economic relationship

Classification of countries

- Anglo-Saxon countries
  - US, UK, Australia and Canada
- Germanic countries
  - Germany, Austria, Switzerland, the Netherlands, Scandinavia
- Latin countries
  - France, Italy, Spain and Belgium
- Japan

Market/network-oriented system of corporate governance	Market-oriented	Network-oriented		
Country class	Anglo-Saxon	Germanic	Latin	Japan
Countries (GDP 1995 × US$ 1,000,000,000; GDP per capita × US$ 1 at current prices and exchange rates). Source: IMF for GDP, OECD for GDP per capita	USA (7,246; 25,512) UK (1,107; 17,468) Canada (569; 18,598) Australia (349; 18,072)	Germany (2,259; 25,133) the Netherlands (396; 21,733) Switzerland (287; 36,790) Sweden (246; 22,389) Austria (233; 24,670) Denmark (175; 28,181) Norway (147; 28,434) Finland (126; 19,106)	France (1,567; 22,944) Italy (1,119; 17,796) Spain (574; 12,321) Belgium (264; 22,515)	Japan (4,961; 36,732)
Concept of the firm	Instrumental, shareholder-oriented	Institutional	Institutional	Institutional
Board system	One-tier (executive and non-executive board)	Two-tier (executive and supervisory board)	Optional (France), in general one-tier	Board of directors; office of representative directors; office of auditors; *de facto* one-tier
Salient stakeholder(s)	Shareholders	Industrial banks (Germany), employees, in general oligarchic group	Financial holdings, the government, families, in general oligarchic group	City banks, other financial institutions, employees, in general oligarchic group
Importance of stock market in the national economy	High	Moderate/high	Moderate	High
Active external market for corporate control	Yes	No	No	No
Ownership concentration	Low	Moderate/high	High	Low/moderate
Performance-dependent executive compensation	High	Low	Moderate	Low
Time horizon of economic relationships	Short term	Long term	Long term	Long term

Path of corporate governance is partly a result of coincidences and reactions

- Path dependence
- Crises and solutions
- Concentration of power
- Cultural differences
- Legal systems

Germany, current outcome of development paths

- Dual board structure
- Codetermination
- Bank owned large groups
- Family owned smaller groups

What does bundle thinking mean?

- Open systems vs. closed systems

- Equifinality:
  - Complementarity
  - Substitution

Agency theory and empirical evidence

- No relation between the theory prediction and empirical evidence.

- Why not?

Elements of bundle thinking
Aguilera et al., 2008

- Costs

- Contingencies

- Complementarities

Examples of using elements of bundle thinking

This rehearsal aims at developing your bundle thinking

Key points:

- Depending on the nature of company you are capable to think both holistic and analytical perspective
- You can efficiently use different institutions of corporate governance
- You can critically but constructively evaluate the holistic structure of corporate governance

Example companies

- UPM (Finland)
- Heineken (Netherlands)
- Dell Corp (UK)
- Procter & Ganble (US)
- Staples (US)

Institutions in use to construct corporate governance bundles

Most likely beneficial institutions:

- Stakeholder influence (employees, banks…) vs shareholders
- Board structure, especially independence
- Level of information disclosure
- Executive compensation disclosure
- Performance-related compensation
- Employee loyalty
- Market for corporate control
- Markets, product and labor
- Audit quality and / or risk management
- Ownership influence

Task

- You will have one company for your analysis.
- Select a specific perspective for the analysis (Board of directors, investor relations, compensation) for the analysis (use Garcia-Castro et al. paper!)
- You have about 45 minutes time in a team to describe, how do institutions form a bundle where both complementing and substitutive elements are present.
- Be ready to give a brief 10 minutes presentation on your case company corporate governance.