

Global Differences in Corporate Governance Systems

Theory and Implications for Reforms

With a Foreword by Prof. Reinier H. Kraakman

Deutscher Universitäts-Verlag

Table of Contents

Fore	word			V		
Pref	ace			VI		
List	of Tal	bles		XII		
List	of Fig	ures		XV		
List	of Va	riables		XVI		
1.	Intro	ductio	n	1		
2.	Differences in Corporate Governance Systems					
	2.1 Components of a Corporate Governance System – Scope of the Analy					
	2.2	Empirical Evidence				
		2.2.1		5		
			Ownership	5		
			Capital Markets	10		
			Legislation	11		
			Summary – Stylized Facts Recent Developments	13 13		
	2.3		nations for the Evolution of Different Systems	14		
		2.3.1		14		
			Technology	15		
			Financial Institutions	15		
			Legal Tradition	16		
			Labor Relations Property Rights and Interventionism	18 18		
	2.4			19		
	2.4	•	nations for the Persistence of Different Systems	19		
			Remaining Questions Political Economy	19		
			Network Effects	20		
3.	Ana	lytical l	Framework	22		
	3.1	Purpo	se of Corporate Governance	22		
		3.1.1	Shared Purpose	22		
		3.1.2	Main Agency Problems of the Different Corporate Governance	24		
	2.2	m. n	Strategies			
	3.2		ole of Institutions and Law	28		
			Market Response Potential Market Failures	28 29		
			Legislative Intervention	30		
4.	Disn		Control – the Outsider System	32		
	4.1		ver Market and the Agency Costs of Dispersed Control	32		
	4.2		ational Innovation	34		

	4.3	A Case for Mandatory Disclosure		36			
		4.3.1	Benefits and Costs of Disclosure	36			
		4.3.2	Model	39			
		4.3.3	Implications	41			
5.	Con	centrat	ed Control – the Insider System	44			
	5.1	Differences with Dispersed Control		44			
•	5.2	Mode	ling the Reputation Mechanism of Concentrated Control	44			
		5.2.1	Setup	44			
		5.2.2	Sequential Equilibrium	48			
			Sketch of Proof Proporties of the Sequential Equilibrium	49			
	5.2	5.2.4	Properties of the Sequential Equilibrium	58			
	5.3	5.3.1	eations	58			
			Corporate Governance without Control Consequences for the Institutional Design	58 60			
	5.4		ative Intervention	62			
	3.4	U					
		5.4.1 5.4.2	Need for Legislative Intervention? Preemptive Rights and Shareholder Approval to Authorized Capital Increases	62 63			
6.	Note	vork Fi	ffects via Capital Markets	68			
0.	6.1		-				
			nce of Corporate Governance on Capital Market Liquidity	68			
	6.2		offluence of Capital Market Liquidity on Corporate Governance	69			
		6.2.1 6.2.2	The Effects on the Costs of Capital of Dispersed Control	69			
	(2		The Effects on the Costs of Capital of Concentrated Control	69			
	6.3		ting Network Effects	72			
7.	Evo	Evolutionary Model 7					
	7.1	Intent	ion and Structure	76			
	7.2	Setup		76			
			Players	76			
			Strategies of Corporate Control	76			
			Capital Markets	77			
			Legislative Strategies Structure of the Model	77 78			
	7.3						
	7.3		ol Strategy	79			
			Firms' Payoffs Decision Process	79 80			
			Cost of Capital	81			
		7.3.4	•	82			
,	`		Equilibria	84			
	7.4		ation and Financial System	86			
		7.4.1	The Legislator's Payoffs	86			
		7.4.2	Strategy Choice	86			
		7.4.3	Financial System	89			

8.	Imp	lication	s for Corporate Governance Reforms	93	
	8.1	Sequencing of Reforms			
		8.1.1	Influence of the Overall Quality of Law on the Autonomous Costs of Capital	93	
		8.1.2	Influence of the Overall Quality of Law on the Corporate Governance System	93	
		8.1.3 8.1.4	Introduction of Mandatory One-Share-One-Vote Provisions Proposed Sequencing of Reforms	94 95	
	8.2	8.2 Hysteresis of Inefficient Systems		96	
		8.2.1 8.2.2	Social Welfare Inherent Coordination Problems	96 97	
	8.3 Effect of Capital Market Integration		of Capital Market Integration	98	
		8.3.1		98	
			Modeling Capital Market Integration	99	
		8.3.3	TT	100	
	8.4		tlook on Privatization Strategies	103	
			Basic Idea	103	
			Auction to One Investor Mass Privatization	104 104	
			Detrimental Minority Control Privatization	104	
9.	The Influence of Coordination Benefits on Corporate Governance and				
7.	Accounting Standards				
	Acco	unting	Standards	106	
	9.1	_	Standards tive of this Chapter	106 106	
		Object			
		Object 9.1.1 9.1.2	tive of this Chapter Intention of the Chapter Remaining Puzzles	106	
		Object 9.1.1 9.1.2	tive of this Chapter Intention of the Chapter	106 106	
		Object 9.1.1 9.1.2	tive of this Chapter Intention of the Chapter Remaining Puzzles	106 106 106	
	9.1	Object 9.1.1 9.1.2 9.1.3 Setup 9.2.1	tive of this Chapter Intention of the Chapter Remaining Puzzles Why a new Model? One Country	106 106 106 108 109 109	
	9.1 9.2	Object 9.1.1 9.1.2 9.1.3 Setup 9.2.1 9.2.2	Intention of the Chapter Remaining Puzzles Why a new Model? One Country Two Countries	106 106 106 108 109 109	
	9.1	Object 9.1.1 9.1.2 9.1.3 Setup 9.2.1	Intention of the Chapter Remaining Puzzles Why a new Model? One Country Two Countries	106 106 106 108 109 109	
	9.1 9.2	Object 9.1.1 9.1.2 9.1.3 Setup 9.2.1 9.2.2 Equili	Intention of the Chapter Remaining Puzzles Why a new Model? One Country Two Countries	106 106 106 108 109 109	
	9.19.29.3	Object 9.1.1 9.1.2 9.1.3 Setup 9.2.1 9.2.2 Equilii Social	tive of this Chapter Intention of the Chapter Remaining Puzzles Why a new Model? One Country Two Countries bria	106 106 106 108 109 109 111 116	
	9.19.29.39.4	Object 9.1.1 9.1.2 9.1.3 Setup 9.2.1 9.2.2 Equilii Social	tive of this Chapter Intention of the Chapter Remaining Puzzles Why a new Model? One Country Two Countries bria Welfare ations of the Coordination Model Sticky Variety	106 106 108 109 109 111 116	
	9.19.29.39.4	Object 9.1.1 9.1.2 9.1.3 Setup 9.2.1 9.2.2 Equilii Social Implie	tive of this Chapter Intention of the Chapter Remaining Puzzles Why a new Model? One Country Two Countries bria Welfare ations of the Coordination Model	106 106 106 108 109 109 111 116 119	
10.	9.1 9.2 9.3 9.4 9.5	Object 9.1.1 9.1.2 9.1.3 Setup 9.2.1 9.2.2 Equili Social Implic 9.5.1	tive of this Chapter Intention of the Chapter Remaining Puzzles Why a new Model? One Country Two Countries bria Welfare ations of the Coordination Model Sticky Variety	106 106 106 108 109 109 111 116 119 122	
	9.1 9.2 9.3 9.4 9.5	Object 9.1.1 9.1.2 9.1.3 Setup 9.2.1 9.2.2 Equilii Social Implic 9.5.1 9.5.2 clusion	tive of this Chapter Intention of the Chapter Remaining Puzzles Why a new Model? One Country Two Countries bria Welfare ations of the Coordination Model Sticky Variety	106 106 108 109 109 111 116 119 122 122	
	9.1 9.2 9.3 9.4 9.5 Concendix	Object 9.1.1 9.1.2 9.1.3 Setup 9.2.1 9.2.2 Equilii Social Implic 9.5.1 9.5.2 clusion : Differ	Intention of the Chapter Remaining Puzzles Why a new Model? One Country Two Countries bria Welfare ations of the Coordination Model Sticky Variety Standardization with the Wrong Standard	106 106 108 109 109 111 116 119 122 122	