



A History of Corporate Governance around the World: Family Business Groups to Professional Managers

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Corporate governance (CG), or the way in which the relations between owners and managers are organised in firms, is not a standard part of International Business (IB) research and teaching. If at all, it tends to be discussed as one of the idiosyncrasies of national business environments, and a function of different national regulations of companies and financial markets.

The growing internationalisation of firms and investment could have lifted CG in IB research and teaching in recent decades. But CG has so far gained a place in research in international finance and economics, e.g. with well-known work of La Porta, Lopez-de-Silanes and Shleifer (1999), rather than IB. This is surprising, because firms from countries that do not adhere to the Anglo-American model of CG with its widely-held share-ownership and extensive reliance on stock markets for finance – often referred to as ‘shareholder capitalism’ – have risen to prominence. An example is Japanese and Korean business groups. The 1997 Asian crisis drew attention to the pitfalls of CG practices in Asian countries. Recent corporate collapses and scandals, involving e.g. Enron, WorldCom, Tyco and Shell, seemed to highlight the limitations of the Anglo-American model.

Such developments spurred academic interest in CG, much of which tends to underline the benefits of the Anglo-American model, often implicitly supporting the notion that the rest of the world is gradually moving towards it. Although it is widely understood that there are national differences in CG, it is not well-understood why such national variations exist and therefore whether the rest of the world will necessarily move towards the Anglo-American model.

An oft-noted explanation for CG diversity is that of La Porta *et al.* (1999), who argued that the absence of robust legal protection of minority shareholders and of creditors in a given country tends to favour concentrated shareholdings, while the existence of such protection favours widely-held shareholdings. This book extends the explanations for CG diversity further by offering a range of historical case studies. Following a good introduction by Randell Morck and Lloyd Steier, the book has chapters on 11 countries in alphabetical order: Canada, China, France, Germany, India, Italy, Japan, The Netherlands, Sweden, the UK, and the USA. All papers were presented at a 2003 NBER-supported conference.

The introductory chapter notes the importance of the topic, puts the subject of the book in the context of the available academic literature, and offers the book’s key question: ‘How did some economies come to entrust the governance of their great corporations to a handful of old moneyed families, while others place their faith in professional CEOs?’ (p.2). The chapter also explains that the authors of the 11 country studies in the book were asked to offer a historical account of control over the large firms in each country, and summarises the findings of each chapter, before seeking to elaborate the common factors.

The country chapters use different approaches to discuss the evolution of CG in each country. For example, Antoin Murphy’s chapter on France takes the reader back to the collapse of the Mississippi

Company in 1720 and then traces changes in company legislation in the 18th and 19th centuries, before discussing the cases of Michelin and Peugeot to explain why French firms expanded over time on the basis of retained earnings and tight control by founding families. In contrast, the chapter on China discusses the period 1880s-1920s, focusing on the failure of the 1904 Company Law in fostering shareholder capitalism, while most of the chapter on India discusses post-World War II developments, particularly the Indian software industry since the late-1980s. Most other chapters offer disparate statistical analyses and that generally do not reach back further than the late-19th century.

The heterogeneity of the country studies makes it difficult to outline common factors that neatly encompass all chapters. Still, the introductory chapter notes 13 common factors that emerge. For example, 'law clearly matters' (pp.37-43, 57-8), which means that differences in legal systems matter to explaining differences in CG. However, not in the mechanical way as proposed by La Porta *et al.* (1999), but in a more subtle way. Several chapters even seem to contradict La Porta *et al.* (1999). For example, the chapter on Canada observes that share ownership was widely dispersed by the 1950s, but that family-controlled pyramidal groups made a come-back by the 1990s despite laws that strongly protected the rights of shareholders.

Another common factor is that 'families matter', i.e. that *family capitalism* was and remains very important in business development (pp.31-3, 56-7). The country chapters in the book indeed draw attention to this fact. Morck and Steier are led to claim that its role has been relatively neglected in the literature. This is an awkward statement, given the existence of a considerable body of literature on the role of families in business development, recently summarised by Andrea Colli (2003).

This is one of several instances that reflect a disconnect between what the book has to offer and the field of business history. Most authors have their academic grounding in finance, others in management and economics. Hence, they may be more familiar with the discourses in these disciplines, rather than the field of business history. This is not to imply that history can only be written by historians, far from it. In fact, the book demonstrates that business historians largely neglected the history of CG as a field of study, or at least may have neglected engagement with current discussions on CG in e.g. finance.

But while the authors of the chapters in this book are able to draw on the rigorous analytical approaches in their academic disciplines, they sometimes do this at the risk of neglecting relevant historical context. For example, the China chapter by William Goetzmann and Elizabeth Köll describes the failure of the 1904 Corporations Law, but offers only conjecture to explain it. It speculates that cultural inertia or the deep-rooted family-based ways of company management and control, and/or the illiquid Chinese stock market are to blame (p.176). Economic historian Dwight Perkins offers what appears a pertinent reason in his comment: the difficulty of legal enforcement in China due to the absence of an independent regulatory or legal system. This echoes current trends in the business history of China. Surveying these trends, Debin Ma (2004) recently warned against cultural explanations of economic underdevelopment and the role of reliance on family in business, noting e.g. that the possibility of legal enforcement in the Treaty port of Shanghai led Chinese firms to shed their traditional traits and use formal mechanisms of contract enforcement in the 1920s. In short, without interpreting the institutions that shape CG in the broader context of a national business environment, understanding of national idiosyncrasies in CG and therefore CG diversity is likely to remain incomplete. Hence, more work remains possible on the comparative history of CG.

Still, this is a rich book that sets a solid benchmark for the comparative study of the history of CG, and its relevance to IB. It offers a welcome exploration of another way to explain why CG differs across countries by noting the relevance of history.

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