Book Review: The Convergence of Corporate Governance: Promise and Prospects, edited by Abdul A. Rasheed and Toru Yoshikawa, published by Palgrave Macmillan, Hampshire, UK, 2012,pp. i-xv, 1-273, ISBN: 978-0-230-29746-3.

Edited by Abdul A. Rasheed and Toru Yoshikawa, this book is a collection of 12 chapters. It is encouraging to see that Rasheed and Yoshikawa (RY, hereafter) mobilized a strong group of scholars in the area of corporate governance. Only the introductory chapter is authored by the editors; Yoshikawa is a co-author in another chapter, and the rest chapters are authored by others. All the chapters are based on theoretical analyses often heavily drawn on previous empirical evidence except for Chapter 3 which is an original empirical study. In terms of geographic focus, eight chapters focus on single countries (Canada, Germany, India, Japan, Korea, Singapore, Spain, and China) and two chapters have the cross-country focus.

The main motivation of RY is to test and gather evidence on the controversial statement made by Hansmann and Kraakman (2001) that corporate law and practice is converging towards the shareholder value maximization model because alternative models have failed. This statement by Hansmann and Kraakman has normative implications and is one which can be empirically tested.

In the introductory chapter, RY reflect on the accumulated research on the convergence of corporate governance and provide an overview of the subsequent chapters. RY define convergence of corporate governance as the increasing isomorphism in the governance practices of public corporations from different countries (p. 2). Given the impossibility of achieving complete isomorphism even among firms within a country, convergence can be defined as an ideal which nations and firms are moving towards. There are several types of convergence such as convergence in form vs. convergence in function, de jure vs. de facto convergence, and contractual convergence. RY alert the reader that any discussion of convergence is incomplete without clear ideas about the direction of convergence or the dimensions of convergence (firm-level or country-level).

At the end of Chapter 1, having reviewed all the subsequent chapters, the editors conclude that it is too early to have an answer to the question of whether corporate governance systems around the world are converging or not. I would also have the same conclusion. But the irony is the editors motivated their book by arguing initially that it is about a decade ago Hansmann and Kraakman (2001) made their provocative statement; hence, it was time to test their prediction. Evidence presented in the book would only suggest that corporate governance systems change very slowly, and a decade might be a “too narrow” window for measuring changes in governance systems. Specifically, the corporate governance system in a country is enshrined by its culture as well as its legal, financing, and business environments. Divergence in any of these factors across countries will continue to contribute towards divergence in corporate governance systems.

In Chapter 2, Hansmann and Kraakman argue that Japan, once the standard-bearer for the state-oriented model, has slowly moved toward the manager-oriented model but enacted U.S. corporate governance legislation. Yet they admit that very few Japanese corporations are adopting U.S. style governance systems and they blame it to "the power of default provisions and incumbent managers". Hansmann and Kraakman argue that the standard shareholder-oriented model (SSM) does not impose upon corporate managers a legal obligation to maximise financial returns to shareholders without regards to the consequences for third parties (i.e., negative externalities). However, considering shareholders as the only owners of the firm is at odds with recognizing a firm's accountability to other stakeholders of the firm. For example, admitting a liability for environmental damage may reduce the stock price and the market value of a firm (hence, shareholders' wealth) but may help the firm restoring its social legitimacy. Under the SSM, the means of controlling managers are reserved exclusively for the shareholders (p. 36). Thus, the legitimacy of the SSM may suffer in the long run due to its contribution to social instability.

Hansmann and Kraakman (2001) carefully avoided offering any time frame for future convergence. In that sense, putting a ten-year timeframe on their prediction may appear to be somewhat premature. In this book, Hansmann and Kraakman argue that the continuing dominance of the SSM relies heavily on the economic progress of globalization. Thus, the extent to which globalization faces resistance across countries and cultures, the SSM will, at least, face pockets of resistance.

In Chapter 3, Bates and Hennessy investigate the convergence in corporate governance by evaluating dissident proxy proposals in Canada. They argue that, from a regulatory and legal perspective, corporate governance in Canada is very similar to that in the U.S. Yet Canadian regulations permit families to control corporations with super majority votes. Although dissident proxy initiatives are common within the Anglo-American corporate governance framework, local factors can play a role in determining their impact on corporations' decision making. Hence, Bates and Hennessy test whether similarity between the U.S. and Canadian corporate governance regulation leads to convergence or whether local factors pose as a barrier for convergence. Their empirical results suggest that local institutional environment matters and it can be a strong barrier to global convergence of corporate governance. They conclude, "context matters, history matters, and beliefs matter because they can change the nature of relationships within the sphere of corporate governance" (p. 71).

Evidence in Chapter 3 supports the notion of path dependency for the evolution of corporate governance in a country. This path dependency hypothesis is further examined in Chapter 4 by Tuschke and Luber in the context of Germany. Because German corporate governance systems had been based on values and norms, which are different, and partly opposing to those of the Anglo-American system, Tuschke and Luber argue that adopting Anglo-American-style governance rules are likely to lead to a 'hybrid' system of governance rather than governance convergence. Their analysis suggests that, while large firms which face competition in global markets are likely to adopt SSM, smaller and family-owned firms, which constitute a significant component of the German economy, are likely to retain German's governance characteristics. Thus, the German governance system is still deeply rooted in an egalitarian, stakeholder-oriented view and despite changes in governance regulations in the 1990s, the governance system in Germany is more likely to follow a path of hybridization (i.e., a mix between shareholder-oriented and stakeholder oriented models).

In Chapter 5, Rajagopalan and Zhang investigate corporate governance in India. Their analysis suggests that significant differences exist between corporate governance regulations and governance practices in India due to several local institutional impediments such as corruption, fragmented regulatory structure, and poor enforcement of laws.

In Chapter 6, Ahmadjian argues that, despite significant regulatory changes since the mid-1990s following the Anglo-American governance model, Japanese corporations have successfully resisted reforms mimicking the shareholder-based governance model. As a result, the Japanese corporate governance system remains "distinctively Japanese".

In Chapter 7, Kim and Lee analyse the transformation of corporate governance in Korea since the Asian financial crisis of 1997. Prescription from the IMF for market-based corporate governance reform, the change of government, presence of international investors and increased shareholder activism – all paved the way for introduction of shareholder-based corporate governance models to some extent. However, due to Korea's long history and pervasiveness of family-based corporations, a hybrid governance structure has emerged where the features of both family capitalism and shareholder capitalism are present.

Unlike Korea, the effect of the Asian financial crisis of 1997 was far less severe on Singapore's economy. Unlike Korea, the pressures for adopting the Anglo-American governance model in Singapore were mostly internal and initiated by local regulators. In this context, Tsui-Auch argues in Chapter 8 that Singapore state agencies tailored Anglo-American standards to fit domestic firms and allowed firms to influence the governance reform process. Thus, the resultant governance reform was converging divergence and many firms converged symbolically. Thus, the governance practice remained uniquely "Singaporean".

In Chapter 9, Gracía and Aguilera review the corporate governance reforms in Spain over the period 2000-2010. Their review suggests that, despite significant progress made towards shareholder-based governance model, Spain still shares most of the characteristics of Latin governance systems such as high ownership concentration, dominance of banks in the financial structure and governance of firms, underdevelopment of institutional investments and state's paternalistic approach to employment contracts.

In chapter 10, Sikavica and Yoshikawa explore the role of multinational corporations (MNCs) in the convergence of corporate governance. While MNCs can be an agent of convergence, their role in convergence is likely to be limited because they may originate from different governance systems with different economic, legal, and cultural settings. Thus, with the growing presence of MNCs that originated from China, Japan, Brazil, Mexico, Argentina, and India, it remains to be seen the extent to which MNCs themselves converge to a single governance system. Sikavica and Yoshikawa rightly point out that it is rather simplistic to debate whether convergence of corporate governance is happening or not. Borrowing the words of Sikavica and Yoshikawa, "Transfer of a practice from one institutional context to another entails a complex process and corporate governance practices are not an exception to it" (p. 229).

In Chapter 11, Haxhi and Aguilera investigate whether U.K.-style 'comply-or-explain' governance codes adopted in many countries can enhance convergence of governance. However, they note that these codes are implemented and enforced differently in different countries. Thus, institutional embeddedness, cultural attributes, and politics will always impede governance changes leading to diverging convergence.

In the final chapter, Peng and Blevins theoretically examine the motives of Chinese firms for cross-listing in the U.S. They argue that cross-listing leads to increased visibility and transparency and helps cross-listed firms to fuel their future growth. Because cross-listed firms make themselves subject to stricter governance standards (compared to Chinese standards) and scrutiny by U.S. exchanges, cross-listing can act as a driver of governance convergence.

Overall, I enjoyed reading the book. Most of the chapters appear to be thorough and authoritative analysis of the topics addressed. The book would be useful for students and scholars of corporate governance. However, one feels that the editors could do well by incorporating more empirical chapters testing Hansmann and Kraakman's hypotheses. In addition, one wonders whether sufficient evidence has been gathered. The real test of Hansmann and Kraakman's hypothesis would be to look for evidence on the convergence of corporate governance in countries which have historically diverged from the SSM. To illustrate, there is no chapter on Latin American, African or East European countries. On the other hand, Asia appears to be over-represented; among the eight country-specific chapters, five are based on Asian countries.

In motivating the book, the editors argued that it was time to look for evidence whether corporate governance around the world was converging or not. Yet the overwhelming evidence in the book suggests that ten years is a short window in the scale of change in corporate governance. Moreover, on balance, the evolutionary process of governance so far appears to be a hybridization of corporate governance. Thus, it may be worthwhile to revisit the issue of convergence two decades later from now.

Reference:

Hansmann, H. and Kraakman, R. (2001) ‘The end of history for corporate law,’ *Georgetown Law Journal*, 89, 439-68.

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14 January 2014