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Global corporate governance: On the relevance of firms' ownership structure

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ABSTRACT

This article addresses reviews research on corporate governance of the modern corporation around the world, with particular attention to the key variable of ownership structure. We first review the evolution of ownership studies from the early days of the Berle and Means to more contemporary research on how ownership has defined the various corporate governance systems around the world. We maintain that concentrated and family ownership structures in emerging economies, the role of the diverse type of large blockholders, and the evolution to more dispersed structures can help to inform broader questions around corporate governance and its relationship to economic development and the role of institutions in these economies. We propose that future research should draw on micro data on firm specific ownership structures and their corporate governance practices to better understand the cross-national diversity of governance and its meanings and consequences. We close by identifying some fruitful areas of future research.

1. Introduction

In this article, to commemorate the 50th Anniversary of the *Journal of World Business*, we seek to take stock of research in comparative corporate governance which has been published in the *Journal of World Business* and its previous incarnation *Columbia Journal of World Business* (summarized in Table 1 and marked with an *) and position it in the context of current corporate governance research. In addition, we identify fruitful areas of future research within the international business literature and in the context of the current global arena. Taking a world business perspective, it is clear that initial research on the theme of corporate governance was localized in the Anglo-American environment for much of its nascence, largely ignoring the global dimensions. Only in the 1990s, with the advent of accounting and financial fraud by globally present firms, and concurrently, when corporate governance became consolidated as a scholarly field, did scholarship expand to incorporate cross-national comparisons within the triad (mostly US, Japan and Europe). It was not until quite recently that the study of corporate governance embraced first Asian nations (i.e., Japanese keiritsu and South Korean chaebols) and ultimately emerging markets, especially China.

Research on global corporate governance includes a wide array of fascinating and complex topics ranging from the structure of the board of directors to issues of transparency, responsibility, and accountability. We ground this article around the core governance construct of ownership because no firm exists without owners and the property rights allocated to these owners. Ownership is at the source of the conflict between owners and managers, a theme that has occupied much of the first wave of corporate governance research (Jensen & Meckling, 1976), as well as at the essence of the conflict between owners and owners which is occupying the more recent wave of governance research (Young, Peng, Ahlstrom, Bruton, & Jiang, 2008). Scholars have analyzed the effects of ownership on an array of firm outcomes such as firm performance (Demsetz & Villalonga, 2001), diversification strategies (Banalieva & Eddleston, 2011), CSR investment (Cruz, Larraza-Kintana, Garcés-Galdeano, & Berrone, 2014; Graves & Waddock, 1994), resilience to the latest financial crises (Crespí & Martín-Oliver, 2015), to mention just a few.

The political sociology and political economy perspectives underscore the relevance of ownership structure in the cross-national context, particularly as it influences the types of capitalisms that have developed over time as well the salience of different

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Table 1
Summary of papers related to ownership structure and corporate governance published in CJWB and JWB.

Author/year	Title	Main idea
Kendall (1969)	Corporate Ownership. The international dimension	The President of PepsiCo Inc. advocates in the MNC for the participation of widespread local owners in parent companies while the reality is a drift to parent owners in the parent county
Beamish (1985)	The Characteristics of Joint Ventures in Developed and Developing Countries	Refer to the relevance of ownership stake is IJV when refer to the partners of joint ventures. The distinction among developing and developed countries matters.
Lieberman (1993)	Privatization. The Theme of the 1990s. An Overview	Ira Lieberman is was the president of a consulting firm that realized on the relevance of the ownership structure of privatization process, where manages and workers become part of the new dispersed ownership structure
Rubach and Sebora (1998)	Comparative Corporate Governance: Competitive Implications of an Emerging Convergence	Recalls as divergent paths of governance forms every day look more alike, with the adoption of best practices of the existing systems. The adoption of global stakeholders
Filatotchev et al. (2003)	Governance, organizational capabilities and restructuring in emerging economies	The authors propose a connection between governance and learning theory, suggesting that learning is inhibited by excessive managerial ownership. They argue that outside ownership involvement and the development of organizational capabilities may facilitate restructuring in Central and Eastern Europe
Liu et al. (2011)	Ownership, strategic orientation and internationalization in emerging markets	Using Chinese data, demonstrates that ownership structure, ownership concentration and CEO ownership can lead firms to choose different strategic orientations. Further, entrepreneurial orientation directly promotes a firm's internationalization activities, whereas market orientation has an inverse U-shaped relationship with internationalization activities
Muñoz-Bullon and Sanchez-Bueno (2012)	Do family ties shape the performance consequences of diversification? Evidence from the European Union	Product and international diversification lead to better performance to family firms compared to non-family firms, showing that the type of owners matters in diversification strategies.
Ma et al. (2014)	Facing global economic crisis: Foreign sales, ownership groups, and corporate value	Investigates the different impact of relational owners (i.e., business groups) and transactional owners (i.e., institutional investors) global economic crises on emerging market firms

country organizations and the accountability of managers to society (Guillén, 2000; Hall & Soskice, 2001; Matten & Moon, 2008; Roe, 2008). Our international business perspective explores the idiosyncratic characteristics of firms, given the institutional context in which they are embedded. Our focus on the ownership structure of the individual firm intends to isolate the impact of owners on the governance of corporations. The diversity of the nature of ownership across countries and over time brings a diversity that overcomes the simplified categories of governance structures based on an identified representative agent in the economy. The typology of these owners explains the expected accountability of managers toward the large and minority shareholders which, ultimately, influence their accountability to the society.

Ownership as a construct can be easily compared across countries unlike other governance constructs such as board independence or labor engagement. Effectively cross-national research on ownership (La Porta, Lopez-de-Silanes, & Shleifer, 1999) pursues a straight forward comparison on who owns large listed firms around the world on the basis of a certain ownership percentage (i.e., 20% threshold) of the largest owner. This kind of criteria, with multiple variations such as Herfindahl values, the ownership of the three or five largest shareholders has been extensively used in the academic literature as well as among practitioners to systematically compare ownership structures. Other governance measures such as board independence, employee participation or shareholder engagement are more subjective to the institutional aspects of the country. For example, whether dual and single board structures exist; the role of external board members is likely to have different meanings and expectation depending on the existence of nominees, proprietary directors or former associates to the firm. The CEO-Chairman duality will vary with the definition of top executive and their functions; compliance with corporate governance practices is contingent to the country codes specifications, which differs widely as well as their enforcement.

We want to highlight how relevant the institutional context is, including its path dependent historical context. It shapes what owners seek from the firm, what their responsibilities toward society are, and how they ultimately define the economy. These future lines of cross-national governance research also connect with the need to design better governance structures adapted to a growing number of internationalized corporations, via foreign direct investment, private equity efforts, or international joint ventures, as well as the emerging new types of organizations such as hybrid forms and temporal organizations.

Thus, the objective of this article is to review the relevance and nuances of the ownership structure of the governance of the modern corporation as it exists in the global business environment. The separation of ownership and control in the U.S. is the key feature that originated the theoretical and empirical approach to corporate governance in the 20th century. From this starting point, we review the diverse nature of the agency problem, first among shareholders and managers, known as Principal-Agent or type I and then among large and minority owners, known as principal–principal or type II. The focus on the conflict of interest between different types of owners captures the unique singularities of the corporate governance system in the U.S. and in the international contexts. Then, we briefly touch on the rich new research on corporate governance in emerging markets. We close by returning to the old debate on whether and how the convergence of governance systems toward a global corporate governance model has become a reality, and raise some research design issues to consider. We hope that this article encourages international business scholars to incorporate corporate governance dimensions in their studies and to think about how to effectively introduce checks and balances for decision makers running global organizations whether it is a traditional manufacturing multinational firm or a sub-unit in the global value chain.

2. Separation of ownership and control: beyond the agency theory approach

The analysis of separation of ownership and control by Berle and Means (1932) triggered research on the diverging interests of