BOOK REVIEW

Corporate Governance and Development: Reform, Financial Systems and Legal Framework

Editors: Thankom Gopinath Arun, John Turner


Reviewed by

Malabika Roy

The book under discussion is a collection of ten papers on the general theme of relationship between economic development and the changes in the pattern of corporate governance. As the title suggests, in the papers the issue of corporate governance has broadly been addressed from two different angles: legal and financial. Except for one paper (Corporate governance of banks in developing economies: concepts and issues) all the other papers either discuss country specific experiences or carries out a comparative analysis across countries. The book is interesting and useful as it offers the reader a glimpse of the different aspects of the problem of corporate governance. As different papers focus on different themes, it will be more fruitful to discuss them separately.

1 Department of Economics, Jadavpur University, Kolkata 700 032, India. Email: malabikar@gmail.com
The papers can be divided into two distinct categories: analytical papers and descriptive papers. The former papers discuss specific aspects of corporate governance within an analytical framework while the latter papers mostly describe country specific experiences. First let me focus on the papers that are rigorously analytical in nature. Three papers belong to this category: Gains and losses of adopting new standards of corporate governance: a CGE analysis of Argentina Omar O. Chisra and Gustav Ferro (Chapter 3); Relationship between debt structure and firm performance in India by Sunil K Majumdar and Kunal Sen (Chapter 5); Shareholder protection; a leximetric approach by Priya Lele and Mathius M Siems (Chapter 10).

In their paper Chisra and Ferro study the impact of increased corporate governance in Argentina on the welfare of different deciles of population under two alternative scenarios: with some unemployment of labour and full employment using a CGE framework. They find that increased corporate governance has a negative effect on social welfare, more so with unemployment. Also the decline in welfare is highest for the poorest section of population. So the general conclusion that seems to follow is: that increasing expenditure on corporate governance to maintain international standards may result in welfare loss. The paper is a unique attempt as the issue of corporate governance has not been studied in the CGE framework before. The authors also mention this. However the paper is a simple and shorter version of a much larger model. In developing the analytical structure presented in the paper the authors have made some very simple assumptions. For instance in the economy all capital is imported. Also a multifaceted concept like corporate governance is captured only through increased auditing, the only effect of which is to reduce the cost of capital. So the general applicability of the model is suspect. Nevertheless the paper opens up interesting possibilities of future research.

Majumder and Sen in their paper explore an interesting and relevant idea regarding corporate governance. They analyze the impact of debt from different sources on the performance of Indian firms, where the different forms of debt also imply different levels and forms of governance by different lenders. Using this structure they test the alternative theories about impact of corporate governance on firm performance. Since the study focuses on the governance issue the explanatory variables mostly include different facets of ownership structure. Other factors like efficiency, control over market etc are ignored. Also there is only a descriptive presentation of the main results, which leaves the reader slightly dissatisfied. If the econometric results were presented in the paper it would have been easier to understand the explanatory powers of the different variables. On the whole the paper is very good with a novel and unique approach and provides ideas for further research.

The paper by Lele and Simes is again an excellent paper, which brings together the literature on corporate laws and corporate governance by constructing an index of shareholder protection by using different aspects of corporate laws. In converting corporate laws and practices to an index
they use coding for legal rules. Their work is built up on the work of La Porta et al (1998). The paper is very well written and will be of immense use to the researchers, specializing in corporate governance as well as to the general reader with special interest in corporate governance. However the presentation would have substantially improved if Table 10.1 which provides a detailed description of various variables was included as an appendix. Also the countries they choose to compare (US, UK, France, Germany, India) are very different in terms of culture and social norms, which is very likely to affect their corporate governance structures. It would be interesting to explore how the shareholder protection has evolved in countries more culturally homogeneous and then compare across blocks of such countries.

Gustavson, Kimani and Ouma (Chapter 3: The Anglo-American model of corporate governance in sub-Saharan Africa: explanatory and normative dimensions) raise a highly interesting and debatable issue: the effect of imposing a corporate governance structure of one country on another, which is very different in culture and social structure. The paper also makes the laudable effort of bringing in Socio-cultural theories (Integrative Social Contracts Theory of Donaldson and Dunfee (1999) and works of Greet Hofstede (2005)) to explain the appropriateness of a corporate governance structure in a socio-cultural context. However the analytical part lacks rigor because it mostly depends on case by case examples rather than on an all encompassing general structure. This makes the applicability of the analysis very limited.

The remaining papers are mainly descriptive and focus on specific country and sectoral experiences. The paper by Goyer and del Real (Chapter 4: Corporate governance and the transformation of the electricity sector in Britain and Spain: the interaction between national institutions and regulatory choice) describe the disparate growth experiences of the electricity sector in Britain and Spain under different corporate governance practices and institutions. In the process the authors attempt to relate the disparate development processes in the two countries to the existing theoretical literature on institutional based varieties of capitalism and regulation theories. However the basis of choosing these two specific countries is not clearly stated in the paper.

There are two papers on Bangladesh. Haque (Chapter 6: The corporate governance role of capital market: a Bangladesh perspective) discusses the corporate governance role (or the lack of it) of the capital market in the context of Bangladesh. Reaz (Chapter 8: Improving corporate governance of banks: issues and experience from Bangladesh) discusses the issues relating to the banking sector using some interesting case studies from banking sector of Bangladesh. But as the author himself points out the results of these case studies cannot be generalized. In general these papers will be of use to researchers who are working on specific issues of specific countries, but they lack general appeal. However both the papers provide a brief survey of the existing literature on the respective issues, which is useful.
There are two papers which examine the issue of corporate governance from a solely legal point of view. Clarke (Chapter 9: Corporate governance regulation and board decision making during takeovers) examines the role of regulations in facilitating takeovers taking the European Union as a case in point. Singh (Chapter 11: Legal aspects of UK bank corporate governance) discusses the legal issues relating to the governance of banks in UK. These papers again lack accessibility to general readers from other disciplines due to their uni-dimensional approaches though they can presumably be useful in understanding the specific legal aspects of corporate governance.

Finally, Gopinath and Turner (Chapter 7: Corporate governance of banks in developing economies: concepts and issues) provide a useful survey of the specific issues involved in corporate governance relating to banking industry in developing economies. The paper provides a good survey of existing literature in this area.

The strength and weakness of this collection of papers lie on the same point: its diversity. On the one hand it gives the reader a glimpse of various issues and approaches that are used in exploring the various aspects of corporate governance. On the other hand diversity of approach does not allow the reader to stay focused on a particular theme.

References:

