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**CULTURE, LAW, AND FINANCE: CULTURAL DIMENSIONS OF  
CORPORATE GOVERNANCE LAWS**

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## ABSTRACT

Using cross-sectional samples of nations from around the world and drawing on two models of cultural dimensions in cross-cultural psychology, we analyze the relations between investors' legal rights—as reflected in the indices of La Porta *et al.* (LLSV)—and national cultural profiles. We find that grouping countries according to legal families—the cornerstone of LLSV's legal approach—provides only a partial depiction of the universe of corporate governance regimes. Our findings cast particular doubt on the alleged supremacy of statutes in common law countries in protecting creditors and, hence, in protecting investors in general. We also find that indices of voting rights and creditor rights correlate with cultural dimensions, but that an index of remedial rights does not. These findings have implications for studying diversity and convergence in corporate governance systems and for the systematic analysis of the interface between law and culture.

“[W]e are not complete materialists.

Culture and ideology, not only value maximization and self-interest, might influence a country’s choice of corporate law.”<sup>1</sup>

## I. INTRODUCTION

In 1996, La Porta, Lopez-de-Silanes, Shleifer, and Vishny (LLSV) redefined the analytical framework for comparative research of corporate governance by introducing an integrated approach to law and finance<sup>2</sup>. LLSV’s methodology was pioneering in that it implemented rigorous statistical tools for analyzing legal phenomena in a multinational cross-sectional sample. The results were impressive and quickly became a standard reference. They cast new light on the connection between investors’ legal rights in each country and the structure of capital markets and corporate finance in that country. Summarizing their long line of research<sup>3</sup>, LLSV recently advocated what they call “the legal approach” as the preferred way to understand corporate governance<sup>4</sup>.

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<sup>1</sup> Lucian Arye Bebchuk & Mark J. Roe, A Theory of Path Dependence in Corporate Governance and Ownership, 52 *Stan. L. Rev.* 127, 168 (1999).

<sup>2</sup> Rafael La Porta *et al.*, Law and Finance, NBER Working Paper No. 5661 (1996) (hereinafter: Law and Finance – WP), later published as Law and Finance, 106 *J. Pol. Econ.* 1113 (1998) (hereinafter: Law and Finance – JPE).

<sup>3</sup> See *id.*; Rafael La Porta *et al.*, Legal Determinants of External Finance, 52 *J. Fin.* 1131 (1997) (hereinafter Legal Determinants); Rafael La Porta *et al.*, Investor Protection and Corporate Valuation, NBER Working Paper No. 7403 (1999); Rafael La Porta *et al.*, Agency Problems and Dividend Policies Around the World, 55 *J. Fin.* 1-33 (2000). See also Rafael La Porta, Florencio Lopez-de-Silanes, and Andrei Shleifer, Corporate Ownership around the World, 54 *J. Fin.* 471 (1999); Simon Johnson, Rafael La Porta, Florencio Lopez-de-Silanes, & Andrei Shleifer, Tunnelling, *Am. Econ. Rev. Papers & Proceedings* (2000).

<sup>4</sup> Rafael La Porta *et al.*, Investor Protection and Corporate Governance, 58 *J. Fin. Econ.* 3 (2000).

In this Article, we set out to challenge as well as enrich the legal approach to corporate governance by presenting new evidence about the cultural foundations that underlie legal rules of corporate governance.<sup>5</sup> The need to take culture into account in comparative corporate governance analysis is now widely acknowledged. Large institutional investors find it necessary to adopt culture-sensitive corporate governance principles for the major foreign markets in which they invest<sup>6</sup>. The largest international economic organizations have adopted principles for good corporate governance as part of wider agendas on corporate governance reform, especially for transition economies and developing countries<sup>7</sup>. These principles and other policy statements invariably note the need to adapt to the “economic, social, legal and cultural circumstances” of particular countries<sup>8</sup>. Prominent academic writers constantly mention culture as one of the factors that may engender path dependence or exacerbate the persistence of existing corporate governance systems<sup>9</sup>.

All these works, however, treat culture as a black box<sup>10</sup>. What is missing is a theory about the ways national culture may affect corporate governance, a theory that could yield testable hypotheses. Licht recently argued that central concepts of cross-

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<sup>5</sup> For recent critical discussions of the legal approach, see, for instance, Mark J. Roe, *The Quality of Corporate Law Argument and its Limits*, working paper (2001); John C. Coffee, *Do Norms Matter?: A Cross-Country Examination of the Private Benefits of Control*, working paper (2001).

<sup>6</sup> See, for example, CalPERS, *Global Corporate Governance Principles*, at <[www.calpers-governance.org/principles/international/global/page03.asp](http://www.calpers-governance.org/principles/international/global/page03.asp)>.

<sup>7</sup> These organizations include the Organization for Economic Cooperation and Development (OECD), the World Bank, and the International Monetary Fund (IMF). For a detailed review, see Amir N. Licht, *The Mother of All Path Dependencies: Toward a Cross-Cultural Theory of Corporate Governance Systems*, 26 *Delaware J. Corp. L.* 147 (2001).

<sup>8</sup> See, for example, Ad Hoc Task Force on Corporate Governance, *OECD Principles of Corporate Governance*, Document SG/CG(99)5 3 (1999).

<sup>9</sup> See, for example, Bebchuk & Roe, *supra* note 1; Mark J. Roe, *Chaos and Evolution in Law and Economics*, 109 *Harv. L. Rev.* 641, 646-47 (1996); Ronald J. Gilson, *Corporate Governance and Economic Efficiency: When do Institutions Matter?*, 74 *Wash. U. L. Q.* 327, 329-30 (1996).

cultural psychology could be applied to produce a cross-cultural theory of corporate governance and sketched out such a theory<sup>11</sup>. This Article derives and empirically tests several hypotheses about associations between countries' cultural profiles and LLSV's measures of investor protection rights<sup>12</sup>.

We represent national cultures by building on the concept of values. Values refer to desirable goals (e.g., equality) and to the modes of conduct that promote these goals (e.g., fairness, helpfulness). They serve as standards to guide the selection, evaluation, and justification of behavior, policies, and events. Values transcend specific actions and situations. Finally, values are ordered by importance relative to one another and form an organized set of categories or dimensions.<sup>13</sup> The ordered set of values forms a system of value priorities. Each national culture can be characterized by its profile of scores on the set of value dimensions. Thus, cultural values provide an effective means for operationalizing culture in cross-sectional empirical research.

We use two different data sets to test our hypotheses. Our main source of data is an on-going project led by Schwartz, which by now has covered over 60,000 respondents in over 65 countries. Multidimensional scaling analysis of these data confirms a system of seven value categories, for which each nation has scores. In this Article we use a sample of teacher respondents from 54 of these countries and use the vector of scores for each country as a representation of its cultural profile. Another

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<sup>10</sup> See Ronald J. Mann & Curtis J. Milhaupt, Foreword, 74 Wash. U. L.Q. 317, 323 (1996) ("the black box of culture").

<sup>11</sup> Licht, *supra* note 7.

<sup>12</sup> The title of this Article thus pays homage to LLSV's groundbreaking work, without which the mode of analysis employed here would not have been possible.

source of data is the work of Geert Hofstede, originally published in 1980 and extended in 1991<sup>14</sup>, based on a survey of over 116,000 respondents in 50 countries and three regions. Hofstede has assigned scores to each country on the four value dimensions he identified as underlying his data. We repeat our analyses using the cultural profiles derived both from Schwartz and from Hofstede and obtain largely consistent results.

We find that grouping countries according to legal families—the cornerstone of LLSV’s legal approach—provides only a partial depiction of the universe of corporate governance regimes. Our cross-cultural analysis corroborates the uniqueness of common law regimes in English speaking countries in better protecting minority shareholders. On the other hand, our findings cast doubt on the alleged supremacy of statutes in common law countries in protecting creditors and, hence, in protecting investors in general. We also find that indices of voting rights and creditor rights correlate with certain cultural dimensions, but that an index of remedial rights does not. On the whole, our study supports widespread intuitions among theorists and practitioners that corporate governance is influenced by national culture.

The implications of the present findings are far reaching. To begin, they demonstrate the usefulness of the cultural value dimension (CVD) framework for the study of international diversity and convergence in corporate governance systems. Beyond helping to understand existing diversity and convergence, the CVD

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<sup>13</sup> See Peter B. Smith & Shalom H. Schwartz, Values, in 3 Handbook of Cross-Cultural Psychology 77, 80 (2nd ed., J.W. Berry *et al.*, eds 1997).

<sup>14</sup> Geert H. Hofstede, Culture’s Consequences: International Differences in Work-Related Values (1980, abridged ed. 1984) (hereinafter “Culture’s Consequences 1980”); Geert Hofstede, Culture’s Consequences: Comparing Values, Behaviors, Institutions, and Organizations Across Nations (2d ed. 2001) (hereinafter “Culture’s Consequences”); Geert H. Hofstede, Cultures and Organizations: Software of the Mind (1991) (hereinafter “Software of the Mind”).

framework may be used in the design of corporate governance reforms—a task at the top of the agenda of international bodies and private actors alike, that has so far proven quite frustrating. More generally, the CVD framework is a promising candidate for analyzing the interface between law and culture—perhaps the two most important elements of social order. While it cannot replace anthropological and other approaches to law and culture that use “thick” descriptions, its parsimony and rigor ensure that CVD-based cultural arguments can be tested empirically. Finally, the present study, together with Licht’s theory, extend the field of behavioral law and economics to include phenomena at the societal or national level. They also imply a new framework for studying law and social norms.

Part II introduces basic concepts of the CVD framework. Part III describes the data. Part IV presents our hypotheses and results. Part V presents our conclusions.

## II. BASIC CONCEPTS

### A. *Values*<sup>15</sup>

We follow the definition of values as conceptions of the desirable that guide the way social actors (such as organizational leaders, policy-makers, individual persons) select actions, evaluate people and events, and explain or justify their actions and evaluations<sup>16</sup>. In this view, values are trans-situational criteria or goals (for instance, security, wealth, justice), ordered by importance as guiding principles in life. Cultural values represent the implicitly or explicitly shared, abstract ideas about what

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<sup>15</sup> For more detail, see Shalom H. Schwartz, *Cultural Value Differences: Some Implications for Work*, 48 *Appl’d Psychol. Int’l Rev.* 23 (1999), on which the following section draws.

<sup>16</sup> Compare Clyde Kluckhohn, *Value and Value Orientations in the Theory of Action*, in *Toward a General Theory of Action* (T. Parsons & E. Shils, eds. 1951); Milton Rokeach, *The Nature of Human Values* (1973); Shalom H. Schwartz, *Universals in the content and structure of values: Theoretical*



is good, right, and desirable in a society<sup>17</sup>. These cultural values (freedom, prosperity, security) are the bases for the specific norms that tell people what is appropriate in various situations. The ways that societal institutions (the family, education, economic, political, religious systems) function, their goals and their modes of operation, express cultural value priorities<sup>18</sup>.

Because cultural value priorities are shared, role incumbents in social institutions (leaders in governments, teachers in schools, executive officers in corporations) can draw upon them to select socially appropriate behavior and to justify their behavioral choices to others (to go to war, to punish a child, to fire employees). The explicit and implicit value emphases that characterize a culture are imparted to societal members through everyday exposure to customs, laws, norms, scripts, and organizational practices that are shaped by and express the prevailing cultural values<sup>19</sup>. Thus, adaptation to social reality and informal socialization are just as central to the transmission of cultural values as is formal socialization.

### *B. Value Dimensions*

A common postulate in cross-cultural psychology is that all societies confront similar basic issues or problems when they come to regulate human activity<sup>20</sup>. Societal members, especially decision-makers, recognize and communicate about these problems, plan responses to them, and motivate one another to cope with them. Values

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advances and empirical tests in 20 countries, in *Advances in Experimental Social Psychology* (M. Zanna ed. 1992).

<sup>17</sup> Robin M. Williams, *American Society: A Sociological Interpretation* (3rd ed. 1970).

<sup>18</sup> See *infra* note 90.

<sup>19</sup> Pierre Bourdieu, *Outline of a Theory of Practice* (1972); Hazel R. Markus & Shinobu Kitayama, A Collective Fear of the Collective: Implications for Selves and Theories of Selves, 20 *Personality & Social Psychology Bulletin* 568 (1994).

are the vocabulary of socially approved goals used to motivate action and to express and justify the solutions chosen. Because values vary in importance, it is possible to characterize each society by the relative importance attributed to these values in the society, thereby deriving a unique cultural profile.

Schwartz derives three bipolar cultural value dimensions from three basic issues he identifies as confronting all societies. In coping with these issues, societies exhibit greater or lesser emphasis on the values at one or the other pole of each dimension. Seven types of values on which cultures can be compared derive from the analysis of the bipolar dimensions. The theory also specifies the structure of relations among these types of values. Next, we briefly describe these three value dimensions, the seven types of values, and the basic issues to which they relate. Figure 1 presents graphically the structure of relations among the dimensions and types of values.

*Embeddedness/Autonomy:* This dimension concerns the desirable relationship between the individual and the group. Embeddedness represents a cultural emphasis on the person as embedded in the group and committed to maintaining the status quo, propriety, and restraint of actions or inclinations that might disrupt group solidarity or the traditional order. The opposite pole of Autonomy describes cultures in which the person is viewed as an autonomous, bounded entity who finds meaning in his or her own uniqueness. It is possible to distinguish conceptually between two types of Autonomy. *Intellectual Autonomy:* A cultural emphasis on the desirability of individuals independently pursuing their own ideas and intellectual directions (curiosity, broadmindedness, creativity). *Affective Autonomy:* A cultural emphasis on

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<sup>20</sup> See, for instance, Hofstede, *Culture's Consequences*, *supra* note 14; Schwartz, *supra* note 15 (citing Rokeach, *supra* note 16; Florence R. Kluckhohn & Fred L. Strodtbeck, *Variations in Value Orientations* (1961)).

the desirability of individuals independently pursuing affectively positive experience (pleasure, exciting life, varied life).

*Hierarchy/Egalitarianism:* This dimension concerns the desirable ways to guarantee responsible behavior that preserves the social fabric. Hierarchy represents a cultural emphasis on obeying role obligations within a legitimately unequal distribution of power, roles, and resources. Egalitarianism represents an emphasis on transcendence of selfish interests in favor of voluntary commitment to promoting the welfare of others whom one sees as moral equals.

*Mastery/Harmony:* This dimension concerns the relation of humankind to the natural and social world. Mastery refers to a cultural emphasis on getting ahead through active self-assertion in order to master, change, and exploit the natural and social environment. Harmony represents an emphasis on accepting the world as it is, trying to comprehend and fit in rather than to change or exploit it.

[Figure 1. about here]

Hofstede's value dimensions and the basic societal problems they address are set forth below. As in Schwartz's model, each dimension describes a range of possible stances between two polar extremes.

*Uncertainty Avoidance:* This dimension refers to dealing with uncertainty and ambiguity. High Uncertainty Avoidance cultures emphasize beliefs, rules, and institutions that provide certainty and conformity.

*Power Distance:* This dimension deals with social inequality, including the relationship with authority. It refers to the evaluation of an unequal distribution of power in institutions as legitimate or illegitimate.

*Individualism/Collectivism:* This dimension concerns the relationship between individual and group. It refers to a preference for loosely knit social relations in which individuals are expected to care only for themselves and their immediate families versus tightly knit relations in which people can expect the wider in-group (e.g., extended family, clan) to look after them in exchange for unquestioning loyalty.

*Masculinity/Femininity:* This dimension deals with the social implications of gender. The Masculinity pole denotes valuing achievement, heroism, assertiveness, and material success, while the opposite Femininity pole stands for emphasizing relationships, modesty, caring for the weak, and interpersonal harmony.<sup>21</sup>

### III. DATA

#### A. *Cultural Variables*

##### 1. On National Cultures

The need to conduct comparisons at the cultural level begs the question of how to define cultural groups. The vast majority of cross-cultural studies have compared nations<sup>22</sup>. In most cases, there are strong forces towards integration in nations that have existed for some time<sup>23</sup>. There is usually a single dominant language, educational system, army, and political system, and shared mass media, markets, services, and national symbols (e.g., flags, sports teams). All this warrants

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<sup>21</sup> Writing in 1980, Hofstede was well aware of the problematic in attributing such qualities to particular genders. He nonetheless retained this label, arguing that it reflects a positive reality that is independent of its normative undesirability. Hofstede, *Culture's Consequences* 1980, *supra* note 14, at 189-90. In the 2001 edition, Hofstede follows the modern distinction between *sex* and *gender* and uses the latter term when referring to social function. Hofstede, *Culture's Consequences*, *supra* note 14, at 280. For further discussion, see Geert H. Hofstede & Willem A. Arrindell, *Masculinity and Femininity: The Taboo Dimension of National Cultures* (1998).

<sup>22</sup> Smith & Schwartz, *supra* note 13, at 95.

<sup>23</sup> Hofstede, *Software of the Mind*, *supra* note 14, at 12.

treating nations as reasonable proxies for cultural groups. Both Hofstede's and Schwartz's studies used means of national samples to represent cultures rather than examining individual differences within nations. The analyses yielded culture-level rather than individual-level dimensions. Where national boundaries encompass several heterogeneous groups with separate distinctive cultures, the culture of the dominant group or of specified subgroups was studied.

## 2. Schwartz's Data

*Value Scores:* Respondents from every inhabited continent completed a value survey anonymously in their native language<sup>24</sup>. They rated the importance of 56 single values "as guiding principles in MY life." Each value was followed in parentheses by a short explanatory phrase (e.g., WEALTH [material possessions, money]). Responses ranged from 7 (of supreme importance) to 3 (important) to 0 (not important) to -1 (opposed to my values). Examination of separate multidimensional scaling analyses of the 56 values within each of the different nations established that 45 of the values have equivalent meaning across cultures. Only these 45 values were therefore included in the analyses for testing cultural dimensions. A Similarity Structure Analysis (SSA) of these values across nations fully supports the use of the above-mentioned value types for representation of national cultures<sup>25</sup>.

Data for comparing nations might ideally be obtained from representative national samples. Even with such samples, however, inferences about national culture

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<sup>24</sup> The survey is described in Schwartz, *supra* note 16.

<sup>25</sup> The SSA was performed on data from over 35,000 respondents from 122 samples in 49 nations, gathered between 1988 and 1993. See Schwartz, *supra* note 15. See generally Ingwer Borg & James C. Lingoes, *Multidimensional Similarity Structure Analysis* (1987); Louis Guttman, *A General Nonmetric Technique for Finding The Smallest Coordinate Space for a Configuration of Points*, 33 *Psychometrika* 469 (1968).

require caution. National populations differ in their demographic composition (e.g., distributions of age, education, occupation), and these different distributions affect average value priorities<sup>26</sup>. Consequently, even when comparing the values of representative national samples, it would still be necessary to control for demographic differences between nations before we could confidently ascribe observed differences in value priorities to national culture alone. Moreover, as noted earlier, many nations contain more than one sub-cultural group, so a single characterization based on a representative national sample is still misleading.

The approach taken instead was to obtain samples, matched on critical characteristics, largely from the dominant cultural group in each nation. The focal type of sample was urban school teachers who teach the full range of subjects in grades 3-12 of the most common type of school system. No single occupational group represents a culture, but school teachers may have a number of advantages for characterizing national value priorities. As a group, they play an explicit role in value socialization, they are presumably key carriers of culture, and they probably reflect the mid-range of prevailing value priorities in most societies. By focusing on this single matched group, it was possible to obtain a relatively pure representation of national differences in value priorities, net of the influences of other national differences<sup>27</sup>.

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<sup>26</sup> The values of particular demographic groups (such as the elderly) are influenced not only by the prevailing culture, but by the unique experiences to which these groups are exposed by virtue of their social locations. Observed differences between the mean values of representative national samples reflect, therefore, not only the prevailing culture. They also reflect current differences in the demographic composition of national populations.

<sup>27</sup> To test the robustness of conclusions from the teacher samples, Schwartz, *supra* note 15, performed parallel analyses with data from samples of college students, from a wide variety of majors, in each of 40 nations. The results supported the value dimensions and the locations of the cultural on these dimensions.

To compute the mean importance of a value type in a nation, the importance that members of the sample from that nation attributed to the set of values that represent that type was averaged. For example, the mean importance of Hierarchy is the average of the ratings of authority, wealth, social power, influential, and humble; the mean importance of Affective Autonomy is the average of the ratings of varied life, exciting life, pleasure, and enjoying life. For cross-national comparisons, sample differences in scale use were eliminated by centering the mean importance of all seven value types within each sample around the approximate international mean.

*Cultural Regions:* Some of the analyses in the present study use groupings of nations, based on the similarity of cultural profiles, as the unit of reference. Using the co-plot graph methodology<sup>28</sup>, it was possible to represent the specific ways in which any national sample resembles or differs from any other with respect to the seven value types. Examination of the graph suggested that six cultural groups of nations could be identified: English speaking, Western European, Eastern European, Far Eastern, Latin American, and African<sup>29</sup>. Panel A of Appendix 2 presents mean scores of each cultural group for each type of values.

### 3. Hofstede's Data

*Value Scores:* Hofstede's ground-breaking study originated in an audit of company morale among the employees of the IBM corporation. The initial material consisted of answers of employees from subsidiaries in different countries to the same paper-and-pencil questionnaire. The questions dealt mainly with the employees' personal values related to the work situation. The database covered employees in 72

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<sup>28</sup> Yair Goldreich & Adi Raveh, Coplot Display Technique as an Aid to Climatic Classification, 25 Geographical Analysis 337 (1993).

national subsidiaries, 38 occupations, 20 languages, and at two points of time: around 1968 and around 1972. Altogether, there were over 116,000 questionnaires with over 100 questions each.<sup>30</sup> Factor analysis of country mean scores in 50 countries and three regions produced the four dimensions described above<sup>31</sup>.

Hofstede notes the criticism that “IBMers are very special people, not at all representative for our country”. He argues, however, that the crucial requirement is that the samples be well-matched across countries, not that they be representative. He asserts that comparing IBM subsidiaries shows national culture differences with unusual clarity because they are so homogeneous in terms of employer, kind of work, and education level<sup>32</sup>. Notwithstanding this and other criticisms of Hofstede’s study, his results came to dominate subsequent research in other areas and especially in business administration<sup>33</sup>.

*Cultural Regions:* Hofstede further tried to divide countries into culture groups by using hierarchical cluster analysis. In order to get meaningful grouping, however, he had to join several subgroups according to his judgment. This yielded the following culture regions: Anglo, Germanic, Nordic, More Developed Latin, Less Developed Latin, More Developed Asian (consisting only of Japan), Less Developed

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<sup>29</sup> See Schwartz, *supra* note 15, at 35-39.

<sup>30</sup> Hofstede, *Software of the Mind*, *supra* note 14, at 251-52.

<sup>31</sup> Hofstede, *Culture’s Consequences*, *supra* note 14, at 58-60. Actually, Power Distance and Collectivism at first formed one factor together, but Hofstede preferred to separate them.

<sup>32</sup> Hofstede, *Software of the Mind*, *supra* note 14, at 252. 252. Hofstede summarizes and responds to several criticisms in *Culture’s Consequences*, *supra* note 14, at 73.

<sup>33</sup> See, for instance, Stephen P. Robbins & Mary Coulter, *Management* 125-29 (6th ed 1999); see, generally, Richard Mead, *International Management: Cross-Cultural Dimensions* (2nd ed. 1998).



Asian, and Near Eastern<sup>34</sup>. In the 2001 edition of his study, Hofstede repeats the first step of hierarchical cluster analysis with an extended group of 50 nations and three regions (instead of 43 in the first 1980 edition) but fails to repeat the second step of grouping. Clearly, the criterion of “more or less developed” could not have been applied to certain countries in the same manner that it had been in the 1980 edition (see Appendix 1). We therefore opted to adhere to Hofstede’s original grouping except for consolidating the two Asian groups into one.

### *B. Legal Variables*

LLSV’s data set covers 49 countries from Europe, North and South America, Africa, Asia, and Australia. There were no socialist or “transition” economies in the sample. Countries were selected for inclusion if they had at least five domestic, non-financial, publicly traded firms with no government ownership in 1993. The following paragraphs review the way LLSV constructed country scores for their main investor protection indices and for legal families.

#### 1. Investor Protection

The prominent novelty in LLSV’s methodology was to operationalize legal rules by assigning numeric values or scores to them. LLSV constructed several variables intended to capture the degree to which national laws protect outside investors from insiders, namely, managers and controlling shareholders. This, in

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<sup>34</sup> Hofstede, *Culture’s Consequences* 1980, *supra* note 14, at 333-36.

essence, is the fundamental function of corporate governance<sup>35</sup>, so these variables serve as proxies for the effectiveness of national corporate governance regimes.

*Anti-director Rights:* Perhaps the single most important contribution of LLSV to comparative analysis of corporate governance is the construction of their anti-director rights index (ATD). This index measures how strongly the legal system protects minority shareholders against managers or dominant shareholders. LLSV published two versions of ATD, which we label ATD97<sup>36</sup> and ATD<sup>37</sup>. The original version, ATD97, focused primarily on the protection granted to shareholders in exercising their voting rights. It was defined as follows:

“The index is formed by adding 1 when: (1) the country allows shareholders to mail their proxy vote; (2) shareholders are not required to deposit their shares prior to the General Shareholders’ Meeting; (3) cumulative voting is allowed; (4) an oppressed minorities mechanism is in place; or (5) when the minimum percentage of share capital that entitles a shareholder to call for an Extraordinary Shareholders’ Meeting is less than or equal to 10% (the sample median). The index ranges from 0 to 5.”<sup>38</sup>

LLSV consider the ATD index a refined version of ATD97 in which the cumulative voting component also covers the right of minority shareholders for proportional representation and another component of preemptive rights of minority

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<sup>35</sup> See, for example, Andrei Shleifer & Robert W. Vishny, A Survey of Corporate Governance, 52 J. Fin. 737, 737 (1997) (“[investors want] to make sure that managers do not steal the capital they supply or invest in bad projects.”).

<sup>36</sup> This version was published in La Porta *et al.*, Legal Determinants, *supra* note 3, and is based on La Porta *et al.*, Law and Finance – WP, *supra* note 2.

<sup>37</sup> This version was published in La Porta *et al.*, Law and Finance – JPE, *supra* note 2.

shareholders to buy new issues of stock was added<sup>39</sup>. LLSV report that their results were not materially affected by the inclusion of preemptive rights and that the results concerning external finance were reconfirmed using the refined measures<sup>40</sup>.

ATD is a more confounded, if richer, gauge of the quality of shareholder rights or even anti-director protection alone, than ATD97<sup>41</sup>. ATD intertwines aspects of control rights (voting) with aspects of cash flow rights (remedial). In order to separate the two aspects we split ATD into two sub-indices, in line with LLSV's methodology and definitions. The first sub-index, labeled ATD-Vote, includes the four voting-related rights and the other sub-index, labeled ATD-Remedial, includes the two remedial rights. The two sub-indices are positively correlated, but only moderately so (.29).

*Creditor Rights:* In addition to equity capital, firms can use external finance in the form of debt. Once creditors part with their money they become subject to the mercy of shareholders. Shareholders have an incentive to invest in risky projects so as to reap the increased return while externalizing the risk of failure to the creditors, whose claim is fixed. The only protections creditors enjoy are legal, either by contract<sup>42</sup> or under special laws. LLSV scored creditor rights in both reorganization

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<sup>38</sup> La Porta *et al.*, Legal Determinants, *supra* note 3, at Table I.

<sup>39</sup> La Porta *et al.*, Law and Finance – JPE, *supra* note 2, at 1126 n. 4.

<sup>40</sup> See, respectively, La Porta *et al.*, Legal Determinants, *supra* note 3, at note 5; La Porta *et al.*, Law and Finance – WP, *supra* note 2, at note 10.

<sup>41</sup> Indeed, without derogating from the importance of the ATD index, the most important protection against directors and control persons—namely, anti-self-dealing rules—is absent from this index. Devising a numerical representation for this aspect is a mighty challenge, though. For a CVD analysis of self-dealing rules, see Licht, *supra* note 7. For comparative analyses, see also Johnson *et al.*, *supra* note 3; Luca Enriques, The Law on Corporate Directors' Self-Dealing: A Comparative Analysis, 2 J. Int'l & Comp. Corp. L. 297 (2000).

<sup>42</sup> For a classic review of contractual protection measures adopted by creditors, see Clifford W. Smith & Jerold B. Warner, On Financial Contracting: An Analysis of Bond Covenants, 17 J. Fin.

and liquidation regimes of each country, as the latter two may be substitutes for one another<sup>43</sup>. They defined a creditor rights index (CRD) as follows:

“The index is formed by adding 1 when: (1) the country imposes restrictions, such as creditors’ consent or minimum dividends, to file for reorganization; (2) secured creditors are able to gain possession of their security once the reorganization petition has been approved (no automatic stay); (3) the debtor does not retain the administration of its property pending the resolution of the reorganization; (4) secured creditors are ranked first in the distribution of the proceeds that result from the disposition of the assets of a bankrupt firm. The index ranges from 0 to 4.”<sup>44</sup>

## 2. Legal Families

LLSV classify countries into legal families, relying principally on the work of Reynolds and Flores<sup>45</sup>. The classification is based on René David’s taxonomy of legal systems according to their origin in common law, civil law (with a breakdown into French, German, and Scandinavian laws), and several other families of law<sup>46</sup>. David’s taxonomy dates from the mid-1960s and has since been criticized, *inter alia*, as being “Euro-American-centric”<sup>47</sup>. As a technical matter, David’s taxonomy classified the laws of East European countries as belonging to the Socialist family – something that

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Econ. 117 (1979). See also Yakov Amihud, Kenneth Garbade, & Marcel Kahan, A New Governance Structure for Corporate Bonds, 51 Stan. L. Rev. 447 (1999).

<sup>43</sup> See, generally, Philippe Aghion, Oliver Hart, & John Moore, The Economics of Bankruptcy, 8 J. L. Econ. & Org. 523 (1992); Lucian A. Bebchuk, Chapter 11, in The New Palgrave Dictionary of Economics and the Law 219 (1998).

<sup>44</sup> La Porta *et al.*, Legal Determinants, *supra* note 3, at Table I.

<sup>45</sup> Thomas H. Reynolds & Arturo A. Flores, Foreign Law: Current Sources of Codes and Basic Legislation in Jurisdictions of the World (1989).

<sup>46</sup> See Rene David & John Brierly, Major Legal Systems in the World Today (1985); 2 Int'l Encyclopedia of Comp. L. (Rene David ed., 1972).

is now outdated, at least with regard to corporate laws. In any event, leading authorities on comparative law generally adhere to this taxonomy<sup>48</sup>.

### 3. Assessment

LLSV's work has become a standard reference in subsequent works on law and finance. Several scholars, including LLSV, have used their indices and legal family classification as independent, explanatory variables<sup>49</sup>. In other cases their methodology was adopted, albeit with considerable refinements<sup>50</sup>. Legal scholars also make constant reference to their variables and findings<sup>51</sup>. As far as we are aware, however, this is the first time that these indices are used as dependent variables.<sup>52</sup> It is thus important to note that they are not free from criticism.

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<sup>47</sup> See Ugo Mattei, *Three Patterns of Law: Taxonomy and Change in the World's Legal Systems*, 45 *Am. J. Comp. L.* 5, 10 (1997).

<sup>48</sup> See Konrad Zweigert & Hein Kötz, *An Introduction to Comparative Law* 63-75 (Tony Weir trans. 3rd ed 1992) (dividing legal systems into Romanistic, Germanic, Anglo-American, Nordic, Socialist and Other legal families). See also Mary Ann Glendon et al., *Comparative Legal Traditions* (2d ed. 1994); Rudolph B. Schlesinger et al., *Comparative Law: Cases-Text- Materials 1* (5th ed. 1988).

<sup>49</sup> See, for example, La Porta *et al.*, *Legal Determinants*, *supra* note 3; Davide Lombardo & Marco Pagano, *Legal Determinants of the Return on Equity*, Working Paper (1999); Ross Levine, *Law, Finance, and Economic Growth*, 8 *J. Fin. Intermediation* 36 (1999); Ross Levine, *The Legal Environment, Banks, and Long-Run Economic Growth*, 30 *J. Money, Credit & Bank.* (1998); Asli Demirguc-Kunt & Vojislav Maksimovic, *Law, Finance, and Firm Growth*, 53 *J. Fin.* 2107 (1998); Tatiana Nenova, *The Value of Corporate Votes and Control Benefits: A Cross-country Analysis*, Working Paper (2000); Victor J. Defeo & Haim Falk, *Market Reaction to International Cross-Listing of Shares by U.S. Firms*, Working Paper (2000).

<sup>50</sup> See Katharina Pistor, Martin Raiser, & Stanislaw Gelfer, *Law and Finance in Transition Economies*, EBRD Working Paper No. 48 (2000); Katharina Pistor, *Patterns of Legal Change: Shareholder and Creditor Rights in Transition Economies*, EBRD Working Paper No. 49 (2000); Katharina Pistor, Daniel Berkowitz, & Jean-Francois Richard, *Economic Development, Legality and the Transplant Effect*, Working Paper (1999).

<sup>51</sup> See, for instance, John C. Coffee, Jr., *Privatization and Corporate Governance: The Lessons from Securities Market Failure*, 25 *Iowa J. Corp. L.* 1, 2 (1999); William W. Bratton & Joseph A. McCahery, *Comparative Corporate Governance and the Theory of the Firm: The Case Against Global Cross Reference*, 38 *Colum. J. Transnat'l L.* 213, 229 (1999); Curtis J. Milhaupt, *Property Rights in Firms*, 84 *Va L. Rev.* 1145, 1154 (1998); James A. Fanto, *We're All Capitalists Now: The Importance, Nature, Provision and Regulation of Investor Education*, 49 *Case W. Res. L. Rev.* 105, 162 (1998).

<sup>52</sup> René M. Stulz & Rohan Williamson, *Culture, Openness, and Finance* (NBER working paper no. W8222, 2001) provide another attempt to explain cross-national variation in investors' rights while using different variables.

LLSV acknowledge some of the possible objections, including the fact that the indices do not cover merger and takeover rules, that they cover disclosure rules only partially, and that they do not cover rules made by stock exchanges or regulations of financial institutions<sup>53</sup>. One could also object to LLSV's choice of index components, to the assignment of equal weights to them, or to LLSV's interpretation of particular national laws. Finally, a line of research led by Katharina Pistor highlights the crucial importance of a general infrastructure of legality, or rule of law, in each country and especially in transition economies<sup>54</sup>. These limitations notwithstanding, there is currently no substitute for LLSV's measures, particularly because they are available for such a large number of nations.

#### IV. RESULTS

The results are presented from two perspectives. In Section A, we examine the extent to which classifying corporate governance regimes according to legal families is compatible with nations' membership in cultural regions. Section B looks at the entire sample of nations and discusses the relations between investor protection indices and cultural value dimensions.

##### A. *Cultural Regions and Legal Families*

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<sup>53</sup> La Porta *et al.*, *Law and Finance – JPE*, *supra* note 2.

<sup>54</sup> Pistor *et al.* report that within a period of only six year (1992-1998), the average level of shareholder rights as measured by LLSV's ATD has improved from substantially below world average to well above world average, such that it surpassed the three civil law families in the LLSV sample, but that the results for law on the books and legality do not indicate that the two are closely related. See Pistor, Raiser, & Gelfer, *supra* note 50; see also Pistor, *supra* note 50. It should be noted that LLSV do not neglect this aspect as they include a measure for the Rule of Law in their analysis. In this Article we focus only on the law on the books and treat this issue in a separate work. See Amir N. Licht, Chanan Goldschmidt, & Shalom H. Schwartz, *Culture Rules: The Cultural Foundations of the Rule of Law and Other Norms of Governance*, Working Paper (2001).

A recurrent theme in LLSV's works and the cornerstone of their legal approach to corporate governance is the classification of legal regimes into legal families – the common law family and three civil law ones: French, German, and Scandinavian. The common law family almost invariably ranks first in terms of the legal protection it affords to external investors, whereas the French civil law group ranks last and the German and Scandinavian groups rank somewhere in between. This pattern is systematically linked to important economic factors such as the structure of national capital markets. It therefore appears important to examine whether this general classification parallels a classification of countries according to cultural profiles.

The reasons why countries belong to a particular legal family range from voluntary adoption decades or centuries ago to forced imposition by past colonial powers. Furthermore, countries that belong to the same family are spread across the entire globe (with the exception of Scandinavian countries). There is no *a priori* reason, therefore, to expect an identity between countries' cultural group and legal family affiliations.

Our investigation proceeds in two steps. We first examine formally whether the two taxonomies overlap. Next, we test whether cultural groups differ from one another in LLSV's investor protection indices. Table 1 presents a cross-tabulation of countries in each legal family with each cultural region for the Schwartz and Hofstede cultural regions. For the sake of consistency and comparability, we follow the

classification used by LLSV. Additional countries that were not classified by LLSV were classified according to the methodology used by them<sup>55</sup>.

Impressionistic examination of Table 1 reveals that the two taxonomies do not overlap neatly. For both the Schwartz and Hofstede cultural regions, countries in the English Speaking/Anglo region stand out as legally homogenous, with a common law system, and countries in the Latin American/Less Developed Latin region are also homogeneous, with a French civil law origin. The remaining cultural regions each contain countries with a variety of legal families, and countries with the same legal pedigree often belong to different cultural regions. The Far Eastern/Asian region is particularly noteworthy because it includes relatively equal proportions of countries whose laws have common law or civil law origins.

[Table 1 about here]

To investigate the association between the two unordered classifications we use the Goodman-Kruskal lambda statistic  $L_B$ <sup>56</sup>. This statistic assesses the relative reduction in error in predicting one variable (legal family) when the other one (cultural region) is known. It is therefore said to be a directional measure, or one for asymmetrical association. In computing  $L_B$ , we treated legal family as the dependent variable, on the assumption that culture encompasses and precedes law, whether law is developed organically or adopted from foreign sources<sup>57</sup>.  $L_B$  values for Schwartz's

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<sup>55</sup> See Appendix 1 and Table 1. The category "Other" includes legal systems that could not be classified into LLSV's categories and several East European countries with a general Civil Law origin. See Central Intelligence Agency, *The World Factbook* (2000) <[www.cia.gov/cia/publications/factbook/indexgeo.html](http://www.cia.gov/cia/publications/factbook/indexgeo.html)>.

<sup>56</sup> See Sidney N. Siegel & John Castellan, Jr., *Nonparametric Statistics for the Behavioral Sciences* 298-99 (2d ed. 1988).

<sup>57</sup> Compare Amir N. Licht, *The Pyramid of Social Norms*, working paper, Interdisciplinary Center Herzliya (2001).



and Hofstede's systems are .44 and .62, respectively, both statistically significant (see Table 1).

Knowing the affiliation of a country with a cultural region can thus help considerably in predicting its legal family affiliation, though prediction is far from perfect ( $L_B = 1$ ). The difference between the two  $L_B$  values seems to be due to the presence of East European countries only in the Schwartz sample and to the fact that his West European region does not distinguish between the Germanic, Latin, and Nordic countries that Hofstede's system discriminates. Knowing a country's legal family is indeed less helpful in predicting its cultural region. A corresponding statistic  $L_A$  assesses the reduction in error of prediction of the cultural region when the legal family affiliation is known.  $L_A$  values for Schwartz's and Hofstede's systems are .33 and .38, respectively (see Table 1). The difference between  $L$  values is more pronounced for Hofstede's system<sup>58</sup>.

Our main inquiry is to examine whether the grouping of countries into cultural regions yields a meaningful differentiation of their corporate governance regimes. Table 2 reports mean levels of ATD and CRD for each cultural region identified by Schwartz and Hofstede and provides  $t$  tests of the differences between such mean levels for each pair of regions<sup>59</sup>. These tests reveal whether, on average, regions differentiated by cultural profile differ systematically in investor protection. This

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<sup>58</sup> We also report Cramér's  $C$  coefficient as a measure of the degree of symmetric association between the two classifications. That is, we measure the extent to which countries from each cultural region share a common legal origin and countries with a common legal origin are located in the same cultural region. This statistic also indicates that legal origin and cultural region overlap only in part, both for Schwartz's and Hofstede's systems. Neither the differences of magnitude of associations reflected by these  $C$  coefficients nor their statistical significance can be determined, given the nature of the variables and the number of expected cases per cell. See Siegel & Castellan, *supra* note 56, at 225-32.

<sup>59</sup> Groups for which we have too few observations were omitted.

approach complements and enriches LLSV's evidence that legal families differ in investor protection.

### 1. Anti-director Rights

The cultural region identified by Schwartz that stands out as significantly different from the others in anti-director rights is the English Speaking region. Tests of mean differences show that the laws of this set of nations grant significantly greater protection to minority shareholders than the laws in Latin American and Western European countries. For Hofstede's classification, it is also the Anglo countries that emerge as distinct in their higher level of anti-director rights (see Table 2). Thus, with regard to English speaking countries, our findings complement LLSV's finding that common law regimes are distinct in the anti-director rights they grant. For this set of countries, the legal uniqueness and the cultural uniqueness overlap and most likely reinforce one another. In other words, corporate governance rules in English speaking common law countries may be grounded in a deep cultural infrastructure.

[Table 2 about here]

Cultural regions in which the dominant legal origins are continental civil law codes do not differ from one another in their levels of anti-director rights. Thus, there are no differences between Western European and Latin American countries, whose laws are based on the French *Code Civil*, using the Schwartz classification of regions. The Germanic, Nordic (which draws on the German civil code), and the two Latin regions identified by Hofstede also do not differ significantly from one another in anti-director rights. Indeed, Schwartz groups countries from Hofstede's Germanic, Nordic, and most of his More Developed Latin region into a single Western European cultural region with laws that are either French or German in origin.

The Far Eastern/Asian region is the most intriguing case. The countries in Schwartz's Far Eastern region have ATD scores a little lower than the English Speaking countries and significantly higher than the Western European countries. Hofstede's Asian region scores significantly lower than the Anglo group and higher only than the Germanic group in Western Europe. We suspected that the results for the Far Eastern/Asian region may be misleading because this region includes countries with different legal system origins. We therefore split this region into two sub-sets of nations according to legal origin: common law on the one hand and civil law, comprising German and French law, on the other hand (See Table 1).

Comparing the ATD means of the sub-sets of Far Eastern nations with common law (n=5 in Schwartz's data) versus civil law origins (n=5) suggests that legal origin dominates cultural affiliation with regard to anti-director rights. The ATD means of the common law sub-set of nations are significantly higher both for the nations in the Schwartz and in the Hofstede studies<sup>60</sup>. Indeed, the East Asian common law sub-set of nations has a higher mean ATD score than all cultural groups with a predominant civil law origin<sup>61</sup>. Mean ATD scores in East Asian civil law nations are lower than those in the English Speaking/Anglo region.

In order further to investigate the relation between membership in a cultural region and the level of minority shareholder protection, we regressed LLSV's ATD

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<sup>60</sup> *t*-statistic values for test of differences of means in ATD between the two subgroups are 3.00 and 4.73 under Schwartz's and Hofstede's groupings, respectively. Both are statistically significant.

<sup>61</sup> Somewhat oddly, we also document that Asian countries have mean values of antidirector rights that are higher than the level prevailing in the countries of origin of their legal system. The differences range from very small to medium sized, although they do not cross the statistical significance threshold, as noted above. But the phenomenon is very consistent for both common law and civil law origins and under both Schwartz's and Hofstede's grouping. This effect replicates for creditor rights.

and the ATD-Vote indices on dummy variables representing cultural regions<sup>62</sup>. The Latin American and Less Developed Latin regions under the Schwartz and Hofstede classifications, respectively, were excluded. The separation between the two Far East/Asian subsets of countries was retained in light of the previous findings. Table 3 provides the results. The specifications in Table 3 test the extent to which belonging to a particular cultural region predicts the level of shareholder protection in reference to a common base level of the excluded category. The parsimony of the specifications allows one to make bold statements about the relation between countries' cultural affiliation and the "legal technology" they adopt for investor protection. Because the independent variables operate at the most fundamental level, controlling for other societal characteristics is not called for and, indeed, can be misleading. Such is the case, for instance, with regard to economic development and the level of legality. Both factors have been shown to be affected by national culture<sup>63</sup>.

Consistent with the *t* test results in Table 2 and with LLSV's findings, the English Speaking region and the Far East common law subgroup have significant positive coefficients, and this result replicates for Hofstede's region classification. Thus, belonging to the English Speaking (Anglo) cultural region predicts an increase in a country's ATD score by 1.9 (2.2) on average and belonging to the Far East (Asian) common law subgroup predicts an increase by 2.1 (2.2). The predictive power

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<sup>62</sup> The reasons for concentrating on ATD-Vote are discussed *below* at section IV.B.1.

<sup>63</sup> With regard to economic development, see, for example, text to note 85; with regard to legality, see Licht, Goldschmidt, & Schwartz, *supra* note 54. LLSV find no evidence that investor rights are a consequence of countries' per capita income. See La Porta *et al.*, Law and Finance – JPE, *supra* note 2, at 1139.

of the regression models as measured by *R*-squared is relatively high (.42-.52, depending on the model).

[Table 3 about here]

Do the results indicate that Asian countries with a common law heritage protect minority shareholders better than countries with a civil law heritage (including other Asian countries)? We doubt it. The historical fact that many of these laws were first enacted by colonial powers means that there was not necessarily a good fit between the legal structure and the cultural foundation on which it had to stand. East Asian countries constitute a distinct cultural region. On average, they resemble the English Speaking group in scoring lower on Harmony than Western European and Latin American countries. On the other hand, East Asian countries score much higher on Hierarchy and much lower on Autonomy than English speaking and Western European countries (see Appendix 2)<sup>64</sup>.

In theory, shareholder protection laws could have been well received into the East Asian cultural environment. However, in a separate work we find that general compliance with formal legal rules (a “law and order” tradition) in the East Asian cultural region is significantly lower than in English speaking and Western European countries<sup>65</sup>. This finding could indicate that company law on the books plays only a minor role in determining shareholder protection in practice in East Asian countries<sup>66</sup>. A decisive answer will require further empirical research. In the meanwhile, we

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<sup>64</sup> For further analysis, see Shalom H. Schwartz & Maria Ros, Values in the West: A Theoretical and Empirical Challenge to the Individualism-Collectivism Cultural Dimension, 1 World Psychol. 93 (1995).

<sup>65</sup> See Licht, Goldschmidt, & Schwartz, *supra* note 54.

advocate caution in judging East Asian shareholder protection regimes solely according to their legal origin.

## 2. Creditor Rights

Analysis of creditor rights across cultural regions also yields interesting insights. Apart from the Far Eastern/Asian cultural region, there are virtually no differences among mean levels of creditor protection among cultural regions, whether we classify nations according to the Schwartz or to the Hofstede data (see Table 2). This finding may look puzzling because LLSV do find significant differences in CRD means between common law and civil law regimes. In particular, they find that common law origin regimes score highest and French origin regimes score lowest on CRD. A cross-cultural analysis may resolve the puzzle and indeed changes the picture substantially. To see why, consider the Far Eastern cultural region.

The mean CRD level in Far Eastern countries with a common law origin is the highest among all other cultural groups, including Far Eastern countries with a civil law origin<sup>67</sup>. Counter-intuitively, the mean CRD level in Far Eastern countries with a common law origin is even higher than in English speaking countries (significant at 7%). In contrast, the mean CRD level in Far Eastern countries with a civil law origin is *not* different than in English speaking countries. The regression analyses of CRD on cultural region dummy variables in Table 3 provide another perspective to these findings. The Far East common law subgroup has a significant positive coefficient,

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<sup>66</sup> Compare. Pistor, Raiser, & Gelfer, *supra* note 50; Pistor, Berkowitz, & Richard, *supra* note 50 (countries score higher on legality indicators if they developed their own legal systems, were able to adapt legal transplants, or their population was familiar with the transplant origin).

<sup>67</sup> *t*-statistic values for test of differences of means in CRD between the two Far Eastern subgroups are 2.05 (significant at 9%) and 2.53 (significant at 5%) under Schwartz's and Hofstede's groupings, respectively.

while the English Speaking group does not. Comparing the cultural regions defined by Hofstede, the CRD findings are basically similar for the cross-region *t* tests (see Table 2) and the regression analysis (see Table 3).

Thus, it does not appear to be the case that common law countries protect creditors best. Rather, statutes in the English Speaking region protect creditors no more nor less than in countries with a civil law origin in Western Europe, Latin America, and even in Asia. Most of the common law countries in LLSV's sample that score very high on CRD belong either to the Far Eastern or to the African cultural regions<sup>68</sup>. It is the latter countries that elevate the CRD score of the common law family, so that it ranks first among legal families. Indeed, the positive coefficient for Hofstede's German cultural region in the regression in Table 3 likely reflects the relatively high CRD score in German-civil-law countries documented by LLSV. What they describe as an "exception" to their argument about the superiority of common law legal regime<sup>69</sup> may thus have a cultural background.

Our static comparative analysis cannot reveal the dynamic processes that may have caused this effect. Note that the countries with the highest scores on CRD are the United Kingdom and many former British colonies and mandate areas, but some members of the British Commonwealth score low or medium on CRD. The present framework does not distinguish among several possibilities. First, the laws in areas formerly under British control may reflect a practice of British rulers to enact ordinances that consolidated English statutory and judge-made law with certain

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<sup>68</sup> In LLSV's common law family the following countries get the highest score (4): Hong Kong, India, Israel, Kenya, Malaysia, Nigeria, Pakistan, Singapore, United Kingdom, and Zimbabwe. The following countries score only 1: Australia, Canada, Ireland, and the United States. La Porta *et al.*, *Law and Finance – JPE*, *supra* note 2, at Table 4.

“adaptations to local conditions”. Countries formerly under British control may thus amplify a unique feature of English law. The observed difference could also be illusory and due to LLSV’s concentration only on statutory law. Decision law in English speaking countries other than the United Kingdom might have complemented statutory law with identical protections, such that these countries indeed offer stronger investor protection. Alternatively, creditor protection laws may have eroded over time in some English speaking countries.

### 3. Assessment

The foregoing discussion makes clear that a comparative analysis of corporate governance laws cannot rely on any single method of classification. Relying only on the “legal approach”—as LLSV dubbed it—led them to conclude that “[i]n general, differences among legal origins are best described by the proposition that some countries protect all investors better than others, and not by the proposition that some countries protect shareholders while other countries protect creditors.”<sup>70</sup> They find support for this conclusion in the lack of evidence that investor rights are a consequence of countries’ per capita income or geography<sup>71</sup>.

A cross-cultural analysis based on the CVD framework casts doubt on LLSV’s conclusion. The group of common law countries whose laws appear to be relatively superior in protecting both shareholders and creditors are Far Eastern countries, but one may doubt the effectiveness of statutory law in this particular group. English speaking countries excel only in shareholder protection notwithstanding their

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<sup>69</sup> La Porta *et al.*, *Law and Finance – JPE*, *supra* note 2, at 1139.

<sup>70</sup> See La Porta *et al.*, *supra* note 4, at 8; see also La Porta *et al.*, *Law and Finance – JPE*, *supra* note 2, at 1139 (“ranking of legal families is roughly the same for creditor and shareholder protection. It is not the case that some legal families protect shareholders and others protect creditors.”)



common law heritage. Reliance on the legal approach as LLSV advocate therefore yields imprecise observations and may lead to inapt policy decisions. The case of Far Eastern countries demonstrates that combining classifications based on cross-cultural dimensions and on legal families can yield insights obscured by using only one approach. The combined approach, in turn, demonstrates that a better understanding of corporate governance systems necessitates a skillful, in-depth legal analysis, with an emphasis on legal history. Continuing research into the interplay between legality and corporate governance laws would further enrich this understanding.

## *B. Cultural Values and Investor Rights*

### 1. Anti-Director Rights

We noted above that LLSV's two ATD indexes differ in the aspects of shareholder protection they reflect. ATD97 has a clearer focus on ensuring the effectiveness of public shareholders' voting rights. ATD intertwines two different aspects: One deals with voting and the other, which LLSV dub "remedial rights", with ensuring that public shareholders' rights (mostly cash flow rights) are not violated in certain circumstances. In this Section, we generate and test hypotheses about relations between these indices and sub-indices and cultural value dimensions.

Corporate governance is the framework that defines the division of wealth and power within the corporation, partly through legal rules and partly through shareholding structures. In the long term, the division of power itself affects the division of wealth. In this view, voting rights define the extent to which shareholders

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<sup>71</sup> See La Porta *et al.*, *Law and Finance – JPE*, *supra* note 2, at 1139.

can exert power or control over the corporation. In their survey of corporate governance, Shleifer and Vishny therefore consider voting rights the essential characteristic of equity<sup>72</sup>. Legal protection of voting rights is valuable primarily for large minority shareholders. Governance by majority shareholders is likely to be relatively straightforward because it may require little enforcement by courts<sup>73</sup>, and for small public shareholders it is rational to be apathetic with regard to exercising their voting rights.

Involvement of large minority shareholders in the governance of the corporation relies on effective voting rights to resist the managers or another dominant shareholder. When major issues are brought to the decision of the general meeting voting rights are directly exploited. But voting rights can also be used indirectly as a credible threat or commitment to stand up for one's rights through oppositional voting and thereby influence corporate actions. We may conclude that the degree to which the law protects voting rights may determine who has the upper hand in a conflict within the corporation<sup>74</sup>. Moreover, the degree of legal protection may also determine the likelihood that conflicts will arise in the first place. The greater the protection, the stronger the incentive for large minority shareholders to emerge and then to monitor managers and enforce their rights. Sometimes enforcement requires resorting to litigation, but at other times the potential threat to do so suffices<sup>75</sup>.

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<sup>72</sup> See Shleifer & Vishny, *supra* note 35, at 751.

<sup>73</sup> *Id.*, at 755.

<sup>74</sup> See, for example, Shleifer & Vishny, *id.* (giving examples from Russia).

<sup>75</sup> Shleifer & Vishny, *id.*, *id.*, indeed note the importance of an effective court system for shareholder legal rights to have effect.

The analysis we offer focuses on voting rights as a means for dealing with conflicting economic interests, both *ex post* and *ex ante*. We do not view voting rights as an apparatus of corporate democracy—a controversial notion that was in vogue in the United States especially during the 1970s and 1980s<sup>76</sup>. Voting rights have different meanings and different roles in the corporate context than in the political arena, notwithstanding the use of the same label. In the corporate context, as just noted, voting rights are rarely relevant for small shareholders<sup>77</sup>. In the political context, they relate solely to individual citizens. Moreover, the term “corporate democracy” has no agreed upon connotation even in the American discourse<sup>78</sup>, and it is unclear to what extent the concept is directly applicable in other countries<sup>79</sup>.

Our cultural hypothesis is that nations high on the Schwartz’s Mastery cultural dimension and low on his Harmony dimension are high on ATD and ATD-Vote. Mastery reflects a cultural preference for assertiveness and active determination of one’s destiny—an orientation that encourages standing up and fighting for one’s

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<sup>76</sup> For reviews, see, for instance, Patrick J. Ryan, Rule 14a-8, Institutional Shareholder Proposals, and Corporate Democracy, 23 Ga. L. Rev. 97 (1988); Daniel E. Lazaroff, Promoting Corporate Democracy and Social Responsibility: The Need to Reform the Federal Proxy Rules on Shareholder Proposals, 50 Rutgers L. Rev. 33 (1997).

<sup>77</sup> The analysis in the preceding paragraph could be extended to small public shareholders, but as we hint in the text, benefit-cost considerations are likely to militate against spending resources on engaging in such conflicts. In extreme cases, such as in the face of a hostile takeover bid, the stakes may be high enough even for a small shareholder to exercise her voting rights. Litigation, however, would be likely only if class action mechanisms are available.

<sup>78</sup> See Ryan, *supra* note 76, at 102 (“[C]orporate democracy’ itself [is] a controversial term with several possible connotations. The term could be a metaphorical description of shareholder activity uncritically applied to the corporate form because both citizens and shareholders exercise voting rights. Alternatively, it could imply a relationship between shareholders and management akin to the delegated powers conferred by a sovereign people upon qualified representatives in the United States’ political order. A third possibility is that ‘corporate democracy’ means that major corporate decisions actually should be made by the shareholders in an annual ‘town meeting.’ Sorting out these various meanings is difficult enough; even more obstacles are encountered in deciding whether any sort of ‘corporate democracy’ describes the best process for making corporate decisions.”)

<sup>79</sup> See, for example, Yoichiro Taniguchi, Note, Japan’s Company Law and the Promotion of Corporate Democracy: A Futile Attempt?, 27 Colum. J. Transnat’l L. 195, 232 (1988) (concluding that “[i]t is unrealistic to expect a full-scale blossoming of corporate democracy in Japan in the near future”).

rights. At the same time, zealous enforcement of shareholder rights and the incarnation of economic rights in strict legal form are incompatible with a cultural emphasis on Harmony—a value dimension that implies a cultural distaste for head-on confrontation.

Based on the Hofstede model, we hypothesize that nations high on the Masculinity and Individualism dimensions and low on Uncertainty Avoidance exhibit greater tolerance for conflict and confrontation. Masculinity is compatible with equipping all shareholders with the rights and means to determine their position rather than to submit to others' decisions. Uncertainty Avoidance “affects the way power in organizations is exercised,” reasons Hofstede<sup>80</sup>. Low Uncertainty Avoidance is consistent with giving less power to people who control uncertainty and with perceiving conflict in the corporation as natural<sup>81</sup>. It is compatible with readiness on the part of corporate constituencies to challenge each other—in general meetings, in public media, and in the courts—with indeterminate outcomes. Note, in this regard, that high ATD scores reflect the presence of “more rights” that one needs to enforce rather than “more law,” which would be consistent with high, not low, Uncertainty Avoidance.

LLSV's remedial rights are less well-defined than the voting rights they record and reflect a very narrow segment of shareholders' rights. The two remedial rights have the nature of safety valves for use in special situations in which the majority

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<sup>80</sup> Hofstede, *Culture's Consequences*, *supra* note 14, at 166.

<sup>81</sup> *Id.*, at 133 (In low (high) Uncertainty Avoidance countries, conflict in organizations is natural (undesirable)). Compare Oscar G. Chase, *Legal Processes and National Culture*, 5 *Cardozo J. Int'l & Comp. L.* 1, 17-18 (1997) (arguing that the tightly-controlled legal procedure in Germany “serves the social value of Uncertainty Avoidance described by Hofstede,” as opposed to the “volatility and comparative unpredictability quality of the lawyer-dominated American trial.”)

abuses its dominant position to deprive the minority of its rightful share in the corporation. In common law countries at least, oppression of a minority is an open-textured cause of action, and modern courts—as courts of equity—have ample discretion to tailor remedies to the particular circumstances of each case. We therefore cautiously hypothesize that high national scores on ATD-Remedial—as consistent with “more rights”—correlate with scoring low on the Harmony cultural dimension, high on Mastery, and low on Uncertainty Avoidance.

Table 4 presents the Pearson correlations between national scores on the cultural value dimensions and on ATD97, ATD, and ATD-Vote. All three variables correlate negatively with Harmony and Uncertainty Avoidance, as hypothesized. ATD-Remedial, however, does not correlate with any cultural dimension from either model—a result not altogether surprising. Thus, we conclude that voting rights regimes apparently express cultural value dimensions with which they are compatible, but the remedial rights in ATD do not<sup>82</sup>.

[Table 4 about here]

The legal family/cultural group analysis in Section IV.A.1 suggested that Asian countries with a common law heritage may be an outlier subgroup. We therefore recomputed the correlations after excluding these countries from the sample. The last two columns in Table 4 report the results. The negative correlations with Harmony and Uncertainty Avoidance remain intact. For Hofstede’s model we also find a positive correlation between Individualism and ATD and ATD-Vote, as hypothesized, and a negative correlation between Power Distance and ATD. The

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<sup>82</sup> The difference between the correlation results for ATD97 and ATD may be attributable to LLSV’s re-definition of the cumulative voting index.

latter finding is consistent with Hofstede's argument that high Power Distance connotes a negative view of "power" and "wealth"<sup>83</sup>, the constitutive elements of corporate governance. Finally, exclusion of the Asian-common law subgroup reduces the puzzling negative correlation between ATD, ATD-Vote and Intellectual Autonomy below the 5% significance level. This subgroup has the lowest score on Intellectual Autonomy and the (questionable—as discussed above) highest score on ATD.

## 2. Creditor Rights

Our analysis of creditor rights is guided by the fact that the CRD index purports to measure how much the law protects the legal rights of creditors in times of crisis. These are the times when debtors default due to insolvency<sup>84</sup> and the assets of the debtor-corporation do not suffice to satisfy its obligations. Although creditors are entitled to collect before shareholders, junior creditors cannot expect to receive more than a few cents on the dollar in typical bankruptcy liquidations. Senior creditors may also find it hard to realize their contractual return because the collateral they may obtain has little value outside the corporation. As various constituencies try to grab as much as they can from a limited pie, the entire bankruptcy setting is quite confrontational. Ex post the insolvency, the bargaining and distribution take place under the court's supervision. Ex ante, they are determined by the law and under the shadow of the law.

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<sup>83</sup> See Hofstede, *Culture's Consequences* 1980, *supra* note 14, at 92.

<sup>84</sup> LLSV state that the CRD index is based on the perspective of senior secured creditors. See La Porta *et al.*, *Law and Finance – JPE*, *supra* note 2, at 1134. Of the four components that comprise CRD, however, only two relate to secured creditors while the other two apply to creditors in general.

The foregoing discussion implies that the hypotheses about cultural values and creditors' rights should be similar to the ones advanced with regard to shareholders' rights. Both cases entail protection of investors' economic claims on the corporation by the legal system. High scores on CRD are therefore expected to correlate positively with Mastery and negatively with Harmony in Schwartz's model and negatively with Uncertainty Avoidance in Hofstede's model. One may also extend Hofstede's argument about wealth and Power Distance to hypothesize a negative correlation with CRD.

Table 5 reports Pearson correlations for the full sample of nations and for a sample from which Asian countries with a common law heritage are excluded. The case for excluding the Asian common law countries is at least as strong with regard to the CRD index as it was for ATD. Indeed, we advocate considering only the sample excluding these countries pending further legal research on creditors' rights in them. The results for Schwartz's model confirm the hypothesis of negative correlation with Harmony. The correlation with Hofstede's Uncertainty Avoidance is also negative, as hypothesized, albeit at a 7% significance level. We further note a weak negative correlation between CRD and Power Distance, consistent with Hofstede's argument.

[Table 5 about here]

### 3. Assessment

The main finding of this section is that crude gauges of the scope of legal rights granted to public shareholders (ATD) and to creditors (CRD) in nations around the world are systematically linked to the emphases in these nations on the cultural value dimensions of Harmony and Uncertainty Avoidance. Nations' standings on these value dimensions are likely to reflect the degree to which national cultures

tolerate or even encourage reconciling competing economic interests in the corporation through confrontational processes whose outcome is indeterminate. Taken together with other findings<sup>85</sup>, the results support the view that national cultural features have a profound effect on the structure of national economies.

The negative correlations of ATD and CRD with cultural Harmony are not accompanied by positive correlations with Mastery, even though these two types of values are located on opposing poles of a single dimension in Schwartz's model (see Figure 1). ATD and CRD also show no correlation with Hofstede's Masculinity dimension. The significant associations with Harmony, in the absence of associations with Mastery and Masculinity, suggest that granting legal rights to investors depends more on societally preferred modes of reconciling competing interests and less on preferred ways for individuals to get ahead in life. In contrast, granting more (voting) rights to public shareholders is associated with a cultural preference for Individualism, which connotes selfishness.

Although CRD correlates with cultural value dimensions across nations, average creditor protection levels do not differ across nations outside of the Asian cultural region. Apparently, the specific cultural features of particular nations rather than the cultural features they share with other nations in their cultural region influence policies regarding protection of creditors in corporate bankruptcies.

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<sup>85</sup> See also Oliver Dieckmann, Cultural Determinants of Economic Growth: Theory and Evidence, 20 *J. Cultural Econ.* 297 (1996)(finding negative correlation between Uncertainty Avoidance and economic growth); Ryh-song Yeh & John J. Lawrence, Individualism and Confucian Dynamism: A Note on Hofstede's Cultural Root to Economic Growth, 26 *J. Int'l Bus. Stud.* 655 (1995); Stephen B. Salter & Frederick Niswander, Cultural Influence on the Development of Accounting Systems Internationally: A Test of Gray's (1988) Theory, 26 *J. Int'l Bus. Stud.* 379 (1995)(finding positive correlation between Uncertainty Avoidance and secrecy in accounting).



However, shared cultural features of broad cultural groupings of nations influence policies regarding the protection of public shareholders.

## V. CONCLUSION

This Article presents empirical evidence about relations between the two fundamental institutions of social order – law and culture – in the context of corporate governance. An analysis of cross-sectional samples of nations from around the world, drawing on data from two models of cultural dimensions in cross-cultural psychology, demonstrates that corporate governance laws exhibit systematic cultural characteristics.

A comparison between a taxonomy of corporate governance regimes according to legal families (“the legal approach”) and a classification of countries according to their shared cultural values demonstrates that the legal approach provides only a partial, if not misleading, depiction of the universe of corporate governance regimes. Dividing shareholder protection regimes according to groups of culturally similar nations is informative. The evidence corroborates the uniqueness of common law origin regimes in better protecting minority shareholders. However, statutes in the English Speaking cultural region offer levels of protection to creditors similar to the laws in the Western European or Latin American regions. Our findings cast doubt on the alleged supremacy of common law regimes in protecting creditors and, therefore, investors in general. Finally, we find that analyses of corporate governance laws in Far Eastern countries, a distinct cultural region, would benefit from combining an approach that draws on cultural value dimensions and one that draws on legal families.

This Article further reveals that country scores on LLSV's indices of anti-director and creditor rights correlate negatively with the cultural dimensions of Harmony and Uncertainty Avoidance. Correlations with other value dimensions are also reported with respect to each index. It is noteworthy that, although the index of creditors' rights does correlate with cultural dimensions identified in both cross-cultural models, these correlations do not reflect national membership in cultural regions. The crudeness of LLSV's indices precludes the development of elaborate interpretations of their correlations with culture. However, even with these limitations, it has been possible to identify systematic relations between culture and corporate governance laws.

The evidence presented here may mark the beginning of a new mode of analysis in comparative corporate governance. The implications that stem from it, however, are even broader. First, the findings lend support to the argument that there is culturally-induced path dependence in corporate governance regimes. This is consistent with views like those of Bebchuk and Roe quoted at the beginning of this article and of Licht <sup>86</sup>, who called culture "the mother of all path dependencies." The corporate setting is embedded within the larger socio-cultural setting in which corporations are incorporated and operate. Cultural values partly determine the types of legal regimes likely to be perceived and accepted as legitimate in a nation. As such, they can serve as guides for legislators and interest groups in their law-making activities.

One important inference from our findings is that cultural values could impede legal reforms that conflict with them. This statement might appear to be a truism, but

it gains significant force when placed in the concrete context provided by the CVD framework<sup>87</sup>. By quantitatively assessing the location of nations on cultural dimensions, this framework provides yardsticks for measuring the suitability of transplanting legal mechanisms from one nation to another. Should countries want to experiment with legal transplantation, this framework can suggest the scope of resources that would be needed—e.g., for education programs—in order to prevent transplant rejection. The CVD framework also permits systematic evaluation of arguments claiming that certain legal systems are unique because of their fit to particular cultures. Such claims are often protectionist arguments in disguise that will become more difficult to defend when confronted with empirical characterizations of the culture in question.

The analyses in this article point out the naivete that underlies any quick-fix suggestion for corporate law reform. However, the analyses do not provide an evaluation of the efficiency of culturally well-adapted regimes. A particular corporate governance system could be fully compatible with the national culture in which it operates and still not be efficient for conducting business through publicly held corporations.

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<sup>86</sup> Licht, *supra* note 7.

<sup>87</sup> The findings may thus shed light on the experience gained from failures of corporate governance reform programs in Russia and other former-Soviet countries, that are often related to “culture”. The main designers of the Russian program argue that a major reason for its failure was “a business culture of law avoidance”. Bernard Black, Reinier Kraakman, & Anna Tarassova, *Russian Privatization and Corporate Governance: What Went Wrong?*, 52 *Stan. L. Rev.* 1739, 1753 (2000). Note that this is not how culture is defined in the present study. For a CVD analysis of former-Soviet countries, see Shalom H. Schwartz & Anat Bardi, *Influences of Adaptation to Communist Rule on Value Priorities in Eastern Europe*, 18 *Pol. Psychol.* 385 (1997).

More generally, this Article extends the scope of the budding field of behavioral law and economics<sup>88</sup>. The importation of psychological insights into law and economics has so far largely been limited to cognitive psychology. These insights are primarily relevant for analyzing the conduct of individual persons. In contrast, cross-cultural psychology—and particularly the CVD framework—can provide tools for analyzing phenomena at the societal or national level. Legal institutions are one example of such phenomena. Non-legal social norms are another<sup>89</sup>. This Article demonstrates how these tools can be deployed in order to enrich economic analyses in a fully compatible fashion.

As already noted, the mode of analysis employed here would not have been possible but for LLSV's groundbreaking effort to translate legal rules into quantitative variables. Cross-cultural psychology is more advanced than legal research in developing tools for operationalizing social phenomena. The challenge to legal research is immense but the potential rewards from taking it up are just as great. Refining LLSV's indices would be our first candidate, but in no way is this observation limited to corporate governance analysis. We believe that important new insights could be gained from applying a CVD analysis to fields such as civil procedure, property, antitrust, and, in particular, social norms.<sup>90</sup>

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<sup>88</sup> See Donald C. Langevoort, Behavioral Theories of Judgment and Decision Making in Legal Scholarship: A Literature Review, 51 Vand. L. Rev. 1499 (1998); Christine Jolls, Cass R. Sunstein, & Richard Thaler, A Behavioral Approach to Law and Economics, 50 Stan. L. Rev. 1471 (1998).

<sup>89</sup> Social norms can be defined as rules “governing an individual’s behavior that third parties other than state agents diffusely enforce by means of social sanctions.” Robert C. Ellickson, The Market for Social Norms, 3 Am. L. & Econ. Rev. 1 (2001).

<sup>90</sup> Thus understood, values are core terms of social norms in the sense that the latter are analyzed in the contemporary law and economics literature. See Licht, *supra* note 7; Licht, *supra* note 57.

## APPENDICES

### Appendix 1. Country Classifications

Country	Schwartz's Regions	Hofstede's Regions	Legal Family	LLSV <sup>a</sup>
Argentina	Latin America	More Developed Latin	French	+
Australia	English Speaking	Anglo	Common Law	+
Austria	Western Europe	Germanic	German	+
Belgium		More Developed Latin	French	+
Bolivia	Latin America		French	
Brazil	Latin America	More Developed Latin	French	+
Canada	English Speaking	Anglo	Common Law	+
Chile	Latin America	Less Developed Latin	French	+
China	Far East		Other	
Colombia		Less Developed Latin	French	+
Cyprus	Eastern Europe		Common Law	
Czech Republic	Eastern Europe		German	
Denmark	Western Europe	Nordic	Scandinavian	+
Ecuador		Less Developed Latin	French	+
Egypt			French	+
Estonia	Eastern Europe		Other (civil law)	
Ethiopia	African		Other	
Finland	Western Europe	Nordic	Scandinavian	+
France	Western Europe	More Developed Latin	French	+
Georgia	Eastern Europe		Other (civil law)	
Germany	Western Europe	Germanic	German	+

Ghana	African		Common Law	
Greece	Western Europe	Near Eastern	French	+
Hong Kong	Far East	Asian	Common Law	+
Hungary	Eastern Europe		Other	
India	Far East	Asian	Common Law	+
Indonesia	Far East	Asian	French	+
Iran		Near Eastern	Other	
Ireland	English Speaking	Anglo	Common Law	+
Israel	English Speaking	Germanic	Common Law	+
Italy	Western Europe	More Developed Latin	French	+
Japan	Far East	Asian	German	+
Jordan			French	+
Kenya			Common Law	+
Macedonia	Eastern Europe		Other (civil law)	
Malaysia	Far East	Asian	Common Law	+
Mexico	Latin America	Less Developed Latin	French	+
Namibia	African		French	
Nepal	Far East		Common Law	
Netherlands	Western Europe	Nordic	French	+
New Zealand	English Speaking	Anglo	Common Law	+
Nigeria			Common Law	+
Norway	Western Europe	Nordic	Scandinavian	+
Pakistan		Asian	Common Law	+
Peru		Less Developed Latin	French	+
Philippines	Far East	Asian	French	+

Poland	Eastern Europe		Other	
Portugal	Western Europe	Less Developed Latin	French	+
Russia	Eastern Europe		Other	
Singapore	Far East	Asian	Common Law	+
Slovakia	Eastern Europe		German	
Slovenia	Eastern Europe		Other (civil law)	
South Africa		Anglo	Common Law	+
South Korea		Asian	German	+
Spain	Western Europe	More Developed Latin	French	+
Sri Lanka			Common Law	+
Sweden	Western Europe	Nordic	Scandinavian	+
Switzerland	Western Europe	Germanic	German	+
Taiwan	Far East	Asian	German	+
Thailand		Asian	German	+
Turkey	Eastern Europe	Near Eastern	French	+
Uganda	African		Common Law	
United Kingdom	English Speaking	Anglo	Common Law	+
United States	English Speaking	Anglo	Common Law	+
Uruguay		Less Developed Latin	French	+
Venezuela	Latin America	Less Developed Latin	French	+
Yugoslavia (former)		Near Eastern	German	
Zimbabwe	African		Common Law	+

a. “+” denotes that the country is included in LLSV’s study. Rafael La Porta *et al.*,

*Law and Finance*, 106 J. Pol. Econ. 1113 (1998)

Appendix 2. Mean Scores on Cultural Value Dimensions in Each Cultural Region

A. Regions Identified by Schwartz

Region and # Countries	Cultural Value Dimensions							
	Harmony	Embedded- ness	Hierarchy	Mastery	Affective Autonomy	Intellectual Autonomy	Egali- tarianism	
African (5)	3.75	4.17	2.71	4.20	3.04	4.20	4.52	
Eastern Eur. (12)	4.49	4.00	2.31	3.85	3.01	4.29	4.63	
Eng. Speak. (7)	3.91	3.66	2.26	4.01	3.64	4.38	4.94	
Far East (10)	4.05	4.02	2.85	4.07	3.09	4.09	4.49	
Latin Am. (6)	4.25	3.85	2.24	4.00	3.00	4.40	4.91	
Western Eur. (14)	4.57	3.34	1.90	3.93	3.74	4.86	5.13	



B. Regions Identified by Hofstede

Region and # Countries	Cultural Value Dimensions				
	Power Distance	Uncertainty Avoidance	Individualism	Masculinity	
Anglo (7)	35.57	44.71	80.57	61.43	
Germanic (4)	23.25	68.50	61.00	65.50	
Nordic (5)	30.20	42.50	71.40	13.80	
More Developed Latin (6)	59.67	83.83	59.50	52.33	
Less Developed Latin (8)	69.75	85.25	20.63	51.00	
Asian (11)	71.45	53.18	25.45	53.09	

TABLES

Table 1. Cross-Tabulation of Number of Countries from Each Legal Family in Each Cultural Region

A. Regions Identified by Schwartz

Cultural Region	Legal Family					Total	%
	Common Law	French	German	Other	Scandinavian		
Africa	3	1		1		5	9.6%
East Europe	1	1	4	5		11	21.2%
English Speaking	7					7	13.5%
Far East	5	2	2	1		10	19.2%
Latin America		6				6	11.5%
Western Europe		6	3		4	13	25.0%
Total	16	16	9	7	4	52	
%	30.8%	30.8%	17.3%	13.5%	7.7%		

Goodman-Kruskal's  $L_B = .44^{***}$

Goodman-Kruskal's  $L_A = .33^{***}$

Cramér's  $C = .56$

B. Regions Identified by Hofstede

Cultural Region	Legal Family					Total	%
	Common Law	French	German	Other	Scandinavian		
Anglo	7					7	15.6%
Germanic	1		3			4	8.9%
Nordic		1			4	5	11.1%
More Developed Latin		6				6	13.3%
Less Developed Latin		8				8	17.8%
Asian	5	2	4			11	24.4%
Near Eastern		2	1	1		4	8.9%
Total	13	19	8	1	4	45	
%	28.9%	42.2%	17.8%	2.2%	8.9%		

Goodman-Kruskal's  $L_B = .62^{***}$

Goodman-Kruskal's  $L_A = .38^{***}$

Cramér's  $C = .72$

\*\*\* significant at 1%; \*\* significant at 5%.

Table 2. Mean ATD and CRD Scores for Each Cultural Region and *t*-tests for Differences between Regions

A. Regions Identified by Schwartz

Variable	Cultural Region	Mean	English Speaking	Latin America	Western Europe
ATD	English Speaking	4.29			
	Latin America	2.80	1.99		
	Western Europe	2.46	4.31***	.53	
	Far East	3.75	1.13	1.23	2.89***
	Far East-common law	4.50	.49	1.81	3.95***
	Far East-civil law	3.00	2.64**	.21	1.00
CRD	English Speaking	2.14			
	Latin America	1.00	1.42		
	Western Europe	1.77	.70	1.49	
	Far East	2.88	.97	2.36**	2.14**
	Far East-common law	3.75	2.09	5.75***	4.04***
	Far East-civil law	2.00	.15	1.10	.37

## B. Regions Identified by Hofstede

Variable	Cultural Region	Mean	Anglo	Germanic	Nordic	MDL	LDL
ATD	Anglo	4.57					
	Germanic	2.00	6.39***				
	Nordic	2.80	4.50***	1.44			
	More Developed Latin	2.50	3.17***	.57	.37		
	Less Developed Latin	2.50	3.90***	.69	.45	.00	
	Asian	3.55	2.09**	2.33**	1.24	1.50	1.79
	Asian-common law	4.60	.09	5.73***	4.03***	2.71**	3.36***
	Asian-civil law	2.67	5.05***	1.27	.27	.22	.27
CRD	Anglo	2.14					
	Germanic	2.75	.69				
	Nordic	2.00	.20	1.14			
	More Developed Latin	1.33	1.20	2.18	1.43		
	Less Developed Latin	1.29	1.08	1.64	.98	.07	
	Asian	3.00	1.32	.34	1.64	2.89**	2.61**
	Asian-common law	3.80	2.42**	1.76	4.81***	6.01***	3.60***
	Asian-civil law	2.33	.24	.49	.49	1.54	1.31

\*\*\* significant at 1%; \*\* significant at 5%.

*t*-statistic values are given in absolute values.

Table 3. Regression Analyses of Investors' Rights and Cultural Region Dummy Variables

A. Regions Identified by Schwartz

Dependent Variable	English Speaking	Western Europe	Far East Common Law	Far East Civil Law	Intercept	R <sup>2</sup>	F	N
ATD	1.911 *** (3.36)	-.086 (.18)	2.125 *** (3.15)	.625 (.93)	2.375 *** (6.11)	.42	5.62 ***	35
ATD-Vote	1.375 *** (3.41)	-.086 (-.25)	.875 * (1.83)	.625 (1.31)	1.625 *** (5.89)	.39	4.98 ***	35
CRD	.429 (.68)	.054 (.10)	2.036 *** (2.77)	.286 (.39)	1.714 *** (3.86)	.25	2.43 *	34

Excluded region: Latin America

B. Regions Identified by Hofstede

Dependent Variable	More								R <sup>2</sup>	F	N
	Anglo	German	Nordic	Developed	Asian Common Law	Asian Civil Law	Intercept				
ATD	2.171*** (4.35)	-.400 (-.67)	.400 (.72)	.100 (.19)	2.200*** (3.97)	.267 (.51)	2.400*** (7.49)	.52	6.47***	42	
ATD-Vote	1.743*** (4.66)	-.150 (-.33)	.600 (1.44)	.100 (.25)	1.200*** (2.89)	.600 (1.53)	1.400*** (5.84)	.47	5.29***	42	
CRD	.810 (1.39)	1.417** (2.03)	.667 (1.03)	.000 (.00)	2.467*** (3.81)	1.000 (1.67)	1.333*** (3.45)	.35	3.14**	41	

Excluded region: Less Developed Latin

t-statistic values are reported in parentheses.

\*\*\* significant at 1%; \*\* significant at 5%; \* significant at 10%

Table 4. Pearson Correlations between Nations' Standings on Cultural Value Dimensions and on Shareholder Rights

Model	Value Dimensions	Full Sample			Excluding Asian Common Law Countries	
		ATD97	ATD	ATD-Vote	ATD	ATD-Vote
<b>Schwartz</b>						
	Harmony	-.613***	-.338**	-.353**	-.338**	-.402**
	Embeddedness	.255*	.168	.162	.056	.155
	Hierarchy	.217	.206	.271	.004	.183
	Mastery	.032	.022	-.059	-.036	-.107
	Affective Autonomy	-.035	-.090	-.007	.021	.035
	Intellectual Autonomy	-.369**	-.306**	-.306**	-.172	-.278
	Egalitarianism	-.213	-.163	-.180	-.009	-.110
	<i>N</i>	35	35	35	31	31
<b>Hofstede</b>						
	Power Distance	-.196	-.092	-.166	-.277**	-.261
	Uncertainty Avoidance	-.480***	-.394***	-.403***	-.309**	-.405***
	Individualism	.170	.126	.226	.288**	.321**
	Masculinity	-.035	-.015	-.063	-.039	-.084
	<i>N</i>	43	43	43	38	38

\*\*\* significant at 1%; \*\* significant at 5%. Significance levels are one-tailed.



Table 5. Pearson Correlations between Nations' Standings on Cultural Value Dimensions and on Creditors' Rights

Model	Value Dimension	Full Sample	Excluding Asian Common Law Countries
<b>Schwartz</b>			
	Harmony	-.360**	-.327**
	Embeddedness	.308**	.161
	Hierarchy	.414***	.263
	Mastery	.102	.031
	Affective Autonomy	-.107	.053
	Intellectual Autonomy	-.235	-.036
	Egalitarianism	-.369**	-.198
	<i>N</i>	34	30
<b>Hofstede</b>			
	Power Distance	-.058	-.313**
	Uncertainty Avoidance	-.364***	-.248
	Individualism	-.111	.040
	Masculinity	-.009	-.040
	<i>N</i>	43	37

\*\*\* significant at 1%; \*\* significant at 5%. Significance levels are one-tailed.

## FIGURE LEGENDS

Figure 1. Schwartz's Model of Values