View metadata, citation and similar papers at core.ac.uk

brought to you by CORE

provided by Research Papers in Economics

ARE GOOD MANAGERS REQUIRED FOR A SEPARATION OF OWNERSHIP AND CONTROL?

ESRC Centre for Business Research, University of Cambridge
Working Paper No 268

By

Brian R. Cheffins
S.J. Berwin Professor of Corporate Law
Faculty of Law
University of Cambridge
10 West Road
Cambridge CB3 9DZ

email: brc21@cam.ac.uk

September 2003

This Working Paper forms part of
CBR Research Programme 2 on Corporate Governance

Abstract
Logically, in a corporate governance system where big companies are widely held and control over corporate policymaking is delegated to a cohort of full-time executives, there needs to be "good" managers. In Britain, however, ownership separated from control in large business enterprises at a time when the country's corporate executives were allegedly amateurish and complacent. The paper examines this British paradox and concludes that dynamics affecting institutional investors explain how ownership structures were reconfigured when doubts existed about managerial quality.

JEL Codes: G30; G32; K22; L22; M53; N24

Keywords: managers, ownership

Acknowledgements
The author gratefully acknowledges financial assistance provided by a John Simon Guggenheim Memorial Fellowship.

Further information about the ESRC Centre for Business Research can be found at: www.cbr.cam.ac.uk

1. Introduction

An intense academic debate has arisen recently concerning the variables that underpin a US-style corporate governance system where large firms are publicly traded and control over corporate policymaking is delegated to a cohort of full-time executives. Various theories have been advanced, including those concerning the nature of minority shareholder protection (La Porta *et al*., 2000: 8-15), the quality of legal institutions (La Porta *et al*., 1998: 1145-51), the configuration of political ideology (Roe, 2000), the regulation of investment intermediaries (Roe, 1994), and the impact of antitrust law (Cheffins, 2003*a*). Within this discourse a potentially important variable has been largely omitted, namely the quality of corporate management. This perhaps is because the point has been taken for granted. Seemingly, it is self-evident that there needs to be "good" managers in order for there to be companies where decision-making is carried out by full-time executives and share ownership is highly diffuse. After all, a primary benefit of a separation of ownership and control is specialization: executives can be hired on the basis of their managerial credentials rather than their ability to finance the firm or their family connections.

This paper seeks to remove the quality of management variable from its relative obscurity. Correspondingly, section 2 describes why the presence (or absence) of good managers can be expected to influence ownership structures in large business enterprises. It also explains how events occurring in the United States – the first country where a separation of ownership and control became the norm in large business enterprises – fall into line with the proposition that the quality of management matters.

While the hypothesized link between ownership structure and good managers is plausible enough, the third section of the paper identifies historical evidence to the contrary. In Britain, as in the United States, publicly quoted companies are currently a pivotal feature of the corporate economy and large business enterprises typically have diffuse ownership structures. As those familiar with British business history are aware, however, the UK has allegedly suffered economically because of complacent and amateurish corporate leadership. Hence, the experience in Britain casts doubt on whether the quality of management is a determinant of ownership structure.

Britain's outsider/arm's-length system of ownership and control became entrenched between the 1950s and the 1980s. Section 4 indicates that Britain may well have suffered from amateurish and complacent corporate leadership during this period. The case against British managers is not clear cut and the paper does not seek to resolve in a definitive way whether British management

was seriously deficient as ownership separated from control in UK companies. Still, there is sufficient ground for doubt about the capabilities of those running large business enterprises to wonder how demand for corporate equity could have been sufficiently robust to foster diffuse share ownership.

The fifth section of the paper seeks to resolve the paradox that has been identified and does so by focusing on the role played by financial intermediaries such as pension funds and insurance companies. This approach is merited because a strong trend in favour of institutional ownership of shares accompanied the shift towards a separation of ownership and control in UK companies. We will see that dynamics affecting major financial intermediaries created momentum in favour of investment in shares of domestic firms, which apparently outweighed whatever doubts might have existed about the quality of management. Section 6 assesses whether this "cult of the equity" was primarily a product of regulation - exchange controls in place between 1947 and 1979 – and argues it was not.

Section 7 offers a conclusion. It does so by reiterating the core messages of the paper, namely that good managers apparently should be a pre-requisite for a separation of ownership and control in large business enterprises but that it does seem feasible in practice for the format to become the norm when well-trained and highly motivated corporate executives are a scarce commodity. Section 7 also speculates why British institutional investors did not respond to potential managerial inadequacies by becoming vigilant monitors of corporate activity and thereby sidetrack the shift towards a separation of ownership and control.

2. Linking Ownership Structure and the Quality of Management

2.1 The Theory

The United States has an "outsider/arm's-length" system of ownership and control where most larger business enterprises lack a "core" shareholder capable of exercising "inside" influence and are run by executives who have substantial discretion with respect to corporate decision-making (Armour *et al.*, 2002: 1704). Until quite recently, the received wisdom was that in global terms the modern corporation followed American norms and was run by professional managers and owned by widely dispersed shareholders (La Porta *et al.*, 1999: 471). By the early 1990s, this image was beginning to show some wear and tear as awareness was growing that a separation of ownership and control was far from universal (La Porta *et al.*, 1999: 472; Shleifer and Vishny, 1997: 754). Subsequent empirical studies verified the exceptional nature of corporate governance arrangements in the United States (La Porta *et al.*, 1999: 474-75,

491-505; Claessens *et al*., 2000; Faccio and Lang, 2002). At the same time, a literature seeking to account for the configuration of national corporate governance systems emerged. Various theories have been advanced, with the dominant explanation being that the "law matters" in the sense that the quality of corporate law within a particular country dictates whether large business enterprises will have diffuse or concentrated share ownership (Roe, 2002: 236-7).

In the relevant discourse, little has been said about the potential contribution of executive leadership. This is a curious omission, given that a division of labour resting partially upon managerial expertise is a key source of strength for the widely held company (Roe, 2001: 10). To elaborate, executives in a company with diffuse share ownership can be hired purely on the basis of their managerial credentials since variables such as their ability to finance the firm or their family connections will not be material (Butler, 1989: 107). This, in turn, provides the foundation for a sensible division of labour (Marris, 1964: 4, 9, 16-18; Easterbrook and Fischel, 1989: 1425).

To elaborate, those who purchase tiny holdings in a publicly quoted company will not have the time, inclination or expertise required to contribute positively to managerial decision-making (Fama and Jensen, 1983: 309). In contrast, since the individuals serving as top executives are being selected on the basis of merit, they should bring to their companies the experience and business acumen necessary to be effective corporate decision-makers. Qualities which a "good manager" will possess will vary with the circumstances, but skills and background that should be helpful will include an affinity for customer relations, awareness of the technical requirements of the relevant industry, familiarity with the demands of investor relations, experience at the executive level and a thorough understanding of the mechanics of key corporate transactions (e.g. acquisitions and share offerings) (Penrose, 1963: 33-41; Sterling, 2003).

While the contribution which managerial quality potentially makes to a separation of ownership and control has attracted little attention in contemporary discussions of comparative corporate governance, the topic has not been ignored entirely. Roe, for instance, has offered instructive comments as part of a critique of the "law matters" thesis. He notes that conduct by insiders which is likely to harm scattered shareholders falls into two basic categories, self-dealing and mismanagement (Roe, 2002: 242). With respect to the latter, he asserts that "corporate law does little, or nothing, to directly reduce shirking, mistakes, and bad business decisions that squander shareholder value" (Roe, 2002: 243). Assuming corporate law in fact does offer little protection

against mismanagement, it seems implausible that investors will have sufficient confidence to buy shares in companies where there is apprehension concerning executive competence. It follows that, in order for a separation of ownership and control to take place, those in charge of a stock market company should possess sufficient expertise to respond appropriately to changing market conditions and to avoid serious lapses of judgment.

2.2 The United States

Developments occurring in the United States seem to confirm the intuition that good managers are an important component of a switch in favour of dispersed ownership. The United States experienced a "corporate revolution" between 1880 and 1930 (Roy, 1997: 3, 16-18; O'Sullivan, 2000: 75-77). While family-oriented companies were the norm at the beginning of this period, by the end leading firms in a wide range of industries had diffuse share ownership and stockholders who tended to lack a sufficient financial incentive to participate directly in corporate affairs. Indeed, in 1932 Adolf Berle and Gardiner Means made their famous proclamation that there was a "separation of ownership and control" in many of America's largest business enterprises (Berle and Means, 1932: 5).

The corporate revolution in the United States coincided with an upgrading of capabilities on the managerial side. Big corporations of the era were developing an increasingly sophisticated "technic of administration", exemplified by the rise of the multidivisional corporation (Smith and Dyer, 1996: 43). The reconfiguration of the managerial function led in turn to a sharp increase in demand for suitably qualified executives and the new market conditions elicited a prompt and emphatic response (Galambos, 2000: 942-43). The distinguished business historian Alfred Chandler has characterized the trend in the following terms:

> "The appurtenances of professionalism – societies, journals, university training and specialized consultants hardly existed in the United States in 1900. By the 1920s they were all flourishing (Chandler, 1977: 468)."

The process of professionalization admittedly had not yielded a wholesale transformation of American managerial practices by the end of the 1920s (Chandler, 1977: 468). Still, it remains fair to say that the emerging separation of ownership and control in America's largest corporations was accompanied by the growth of a cadre of executives trained and socialized to run major business enterprises (Lazonick, 1991: 31).

3. The British Paradox

3.1 Relevance of the British Experience

With respect to corporate governance arrangements, Britain has more in common with the US than any other major industrial nation and shares America's "outsider/arm's-length" system of ownership and control (Armour *et al.,* 2002: 1703-4, 1715, 1750-54). Given the division of labour which underpins the widely held company, a reasonable supposition would be that Britain would have followed the American pattern and would have had a growing cohort of well-qualified executives as dispersed share ownership became the norm in big companies. The upshot is that examining the experience in Britain provides a useful method for testing the proposition that good managers are associated with a separation of ownership and control.

Experience suggests that this sort of test will be a robust one. This is because events occurring in Britain serve to cast doubt on various theories that have been offered to account for the configuration of corporate governance arrangements in the US and elsewhere, including the thesis based on the quality of corporate law (Armour *et al.,* 2002: 1716-20, 1735-36). It transpires that, with respect to the conjectures offered thus far concerning managerial quality and corporate ownership structure, the United Kingdom again constitutes a problematic case. The reason is that UK executives have a poor reputation. For instance, "(t)he amateur nature of British management historically seems to be widely taken for granted by business historians (Matthews, 1998: 72)." Assuming this pessimistic assessment of the country's corporate executives is on target, a paradox arises: if good managers are an intrinsic aspect of outsider/arm's length corporate governance how could ownership have separated from control in the UK?

3.2 Timing

The theme that British companies are plagued by amateurish management has been an enduring one (Jones and Barnes, 1967: 14). For instance, as early as 1902 the individuals running Britain's large firms were being condemned on the grounds that they were "behind the times" and "plagued by stolid conservatism" (Aldcroft, 1964: 114). A hundred years later, the UK's trade and industry secretary observed that "the average (British manager) lags well behind the best (in the world)" (Skapinker, 2002). For present purposes, however, it is unnecessary to consider this entire period. Instead, since the question being analysed here is whether the presence of "good" managers is essential for a separation of ownership and control to occur, the decades when it became the

norm for Britain's larger business enterprises to have diffuse share ownership should be the focal point for analysis.

By virtue of this chronological refinement, events taking place in the first half of the 20th century do not require close attention. British industrial and commercial firms first began to carry out flotations (initial public offerings) in substantial numbers in the final few years of the 19th century and the publicly quoted company became a well-established part of the UK economy by the opening decades of the 20th century. Still, the typical stock market firm was dominated by its founding family. Correspondingly, the managerially oriented and diffusely held company that prevails today had not moved to the forefront (Cheffins, 2002: 154-58). Since this was the case, events occurring during the first half of the 20th century do not address directly the proposition that good managers must be on the scene in order for a separation of ownership and control to become the norm.

The configuration of share ownership structures in Britain's larger companies changed radically in the decades immediately following World War II. Partly due to hectic merger activity, traditional family-dominated patterns unravelled to a substantial extent (Cheffins, 2003*b*: 7-9). A study of British business carried out in 1969 remarked upon the "steady decline of family power in British industry" and suggested that "the family empire" was "being steadily swept away by the forces of nature" (Turner, 1969: 221, 239). Business historians subsequently endorsed this verdict, with Jones saying in 1999 about the 1950s and 1960s:

> "Personal capitalism and family ownership was swept away in these decades. Britain became the classic Big Business economy, with an unusually unimportant small and medium-sized sector, and with ownership separated from control (Jones, 1998-99: 14)."

The predominance of managerial capitalism was accepted in official circles as well. The authors of a government-sponsored report on financial institutions published in 1980 observed that "(t)he wide dispersal of shareholding in the UK, and the increasing complexity of decision-taking has in the past given many managements a substantial degree of independence from outside control (Useem, 1984: 28)."

Despite this apparent consensus, empirical studies carried out with 1970s data indicated that many larger British companies continued to have a block of shares owned by a family (Nyman and Silberston, 1978; Scott and Griffe, 1984: ch. 4). This evidence convinced some that "the managerial revolution heralded

by Berle and Means in 1932 ha(d) probably not yet happened" in the United Kingdom (Francis, 1980: 1). Data from the 1980s removed any serious doubt, however, that Britain had moved to a US-style corporate governance system with ownership separated from control (Cheffins, 2002: 158). By virtue of this chronology, for the purposes of the present enquiry, the pivotal period encompasses the decades immediately following World War II. This is because the events taking place during this time frame should indicate how ownership might separate from control when serious doubts exist about the quality of corporate leadership.

4. The Case Against British Management (post-World War II)

4.1 General Observations

To recapitulate, since good managers seemingly constitute an intrinsic aspect of the "Berle and Means corporation" and since ownership separated from control in larger British business enterprises between the 1950s and the 1980s, there seemingly should have been corporate leadership of a high calibre during this period. Instead, a 1956 report on management succession in British companies bemoaned "(t)he shortage of good managers, particularly at the top (Action Society Trust, 1956: 1)." A 1972 study of managerial practices in Britain, France, the Soviet Union and the United States alleged that "suboptimization within individual British companies has a content similar to that within the Soviet economy as a whole (Granick, 1972: 55, 363)." Aldcroft, an economic historian, echoed the same sentiments in 1982, asserting that "Britain has suffered from a shortage of the right talent in the post-war period, and most comparisons with other countries tend to be unfavourable (Aldcroft, 1982: 56)." More generally, various observers seeking to explain why the country declined relative to its major industrial rivals after World War II identified the inherent weakness of British management as a pivotal cause (Aldcroft, 1995: 110-11; Tiratsoo, 1997: 77; Wilson, 1995: 218-23).

The case made against those running British companies was not purely rhetorical in orientation. Instead, it had an empirical foundation, with investigations of the comparative performance of domestic firms and competing foreign enterprises offering controlled-experiment evidence supporting the thesis that UK management was deficient in material respects. The leading study, based on data from 1960, showed that American subsidiary companies operating in the UK earned higher average profits than their British competitors (Dunning, 1970: 345-400). This result was not merely a product of competitive advantages which multinational firms might enjoy, since the same study found that subsidiaries of British companies operating in North America did less well

on average than their local rivals (Dunning, 1970: 233-54). Later data supported these findings at least partially (e.g. Dunning, 1988: 225), which meant that evidence from comparisons between foreign affiliates and domestic companies generally confirmed the hypothesis of inferior British management (Davies and Caves, 1987: 9-10).

4.2 Talent

British management allegedly suffered from various shortcomings in the decades following World War II. Mediocre talent was one alleged drawback. During the first half of the 20th century, family-oriented "personal capitalism" continued to hold sway (Chandler, 1990: 240). Allegations that selection to senior executive positions was insufficiently meritocratic naturally ensued (Chandler, 1990: 242, 286, 292; Keeble, 1992: 45-46, 58; Payne, 1990: 44). With family dominance unravelling from the 1950s onwards, chastising British companies on the grounds of nepotism became increasingly difficult to do on a convincing basis (Keeble, 1992: 45-46; Blackford, 1998: 221).[1] Still, doubts of a different nature were cast upon the calibre of those in charge of the UK's larger business enterprises.

A widely held belief was that Britain's best and brightest shied away from a managerial career, thereby imposing adverse economic consequences on the country (Florence, 1972: 367; Granick, 1972: 364; Hussey, 1988: 2-5). The primary motive for opting out, according to this school of thought, was that corporate management was a low status occupation in a country imbued with an anti-industrial bias (Turner, 1969: 440-41; Aldcroft, 1992: 164-65; Lane, 1989: 91). Certainly, executives in the UK were not particularly well paid; during the 1970s and much of the 1980s their rivals in other major industrialized countries had more lucrative remuneration packages (Granick, 1972: 286-88; Lane, 1989: 129-30; Parker, 1976: 27-28).

4.3 Motivation

Whatever counterproductive effects an anti-industrial cultural ethos might have had on the quality of management, the trend may well have been reinforced by weak incentives. Critics said that the individuals running British companies lacked the drive to maximize profits, to market aggressively and to foster innovation (Dubin, 1970; Granick, 1972: 363-64; Turner, 1969: 431-33). Also, British managers were suspected of being unduly tolerant of poor performance, of possessing an inappropriate bias in favour of the status quo and of eliciting implicit compensation via shirking (Channon, 1973: 227; Granick, Managerial, 1972: 42, 370; Sargant Florence, 1972: 355, 358, 368, 393). The incentive

structure within which British managers operated likely did much to reinforce whatever managerial complacency existed in British companies (Channon, 1973: 45; Clutterbuck and Crainer, 1988: 238, 348).

To elaborate, tax rules effectively precluded the use of stock options until the 1980s (Channon, 1973: 46, 213; Egginton, 1993: 353; Granick, 1972: 274). Also, high taxes on personal income dramatically reduced the take-home pay of potential overachieving "high-fliers". Correspondingly, the remuneration packages on offer probably did little to motivate those in charge of UK companies to focus on shareholder value (Channon, 1973: 45-46, 206, 210, 213, 232-33; Granick, 1972: 273-76; Turner, 1969: 434-37). At the same time, since turnover in top managerial posts was minimal, neither the fear of dismissal nor the prospect of being poached by another company would have done much to motivate incumbent executives (Cheffins, 1997: 111-12; Dubin, 1970: 192-93; Keeble, 1992: 56-57). Given these various circumstances, it is not surprising that doubts existed about whether British executives, no matter how talented, were suitably motivated to exercise leadership in a decisive and effective manner.

4.4 Education and Training

The misgivings expressed about the calibre and motivation of individuals serving in top managerial positions were only part of the story. It was also widely believed that British executives had not received proper training for the important posts they occupied (e.g. Jones and Barnes, 1967: 222; Constable and McCormick, 1987: 16; Hussey, 1988: 58). Rhetorical flourishes offered by a study team led by business commentator Charles Handy in a 1987 report made the point effectively. Handy and his co-authors argued that Britain "does not take the preparation and development of her managers as seriously as other countries", said that "the British are amateurs competing with professionals" and denounced "management training in Britain (as) too little, too late, for too few (Handy *et al.*, 1987: 2, 11)."

Critics of the British approach to the development and education of corporate executives cited various shortcomings. Academic qualifications constituted one source for concern. There was a growing incidence of university graduates in management in the years following World War II (Aldcroft, 1995: 97). Still, senior executives in Britain remained less likely to have a university degree than their counterparts in other industrialized countries (Channon, 1973: 212-13; Gospel, 1992: 112; Lane, 1989: 89, 95). Moreover, with those who were graduates, their studies were thought to lack a practical or technical element,

ensuring that "the best of the British are, perforce, clever amateurs (Handy *et al.*, 1987: 12; see also Aldcroft, 1992: 107-8, 115)."

In the decades following World War II, concerns about the practical relevance of what was being taught should have been ameliorated to a certain extent by the growth of courses specifically designed for individuals intending to serve in an executive capacity. During the 1960s there was an alleged "revolution in British management education" (Wheatcroft, 1970), exemplified by the creation of MBA programmes at London Business School and Manchester Business School and by a significant growth in the number of universities or colleges offering undergraduate degrees in management or business studies (Barry, 1989: 63; Constable and McCormick, 1987: 12-13; Whitley *et al.*, 1987: 30-31; 63). Still, employers felt that the quality of teaching in business-related courses was mediocre and feared that students were graduating with an insufficient awareness of industrial and commercial practice (Constable and McCormick, 1987: 10-11). One manifestation of this sentiment was that British companies tended to be lukewarm about recruiting MBAs (Hussey, 1988: 32-33; Keeble, 1992: 155, 161; Locke, 1989: 183).

Another misgiving expressed about the qualifications of those acting in a managerial capacity was that British industry remained, for the most part, a "training desert" (Aldcroft, 1995: 104). In-house management education schemes did become more prevalent after World War II (Barry, 1989: 69). Most companies, however, had only rudimentary arrangements (Aldcroft, 1995: 104). Also, while external programmes were growing in prominence, a substantial fraction of managers failed to use this method to remain up-to-date and the courses tended to be remedial rather than advanced in orientation (Handy *et al.* 1987: 10-11). The upshot was that, with respect to the training of managerial personnel, Britain arguably "neglected her managerial stock" (Handy *et al.* 1987: 13), thus leaving companies inadequately positioned to implement innovative technology, to exploit new investment opportunities and to organise and monitor complex production processes (Aldcroft, 1992: 98, 117-18, 130-41; Jones and Barnes, 1967: 280).

4.5 Managerial Hierarchies

Aside from potential shortcomings relating to the talent, motivation and training of corporate executives, primitive administrative hierarchies allegedly encumbered British firms. Again, this is an instance where there was a legacy of deficiencies checked to some degree by improvements from the 1950s onwards. Prior to World War II, organizational structures in the vast majority of UK companies were primitive, in the sense that top executives typically took it upon

themselves to supervise directly middle and even lower level managers (Chandler, 1990: 290-92). This pattern allegedly precluded British firms from adopting the beneficial American practice of decentralizing operational decisions while keeping strategy firmly in the hands of the centre (Chandler, 1992: 235-37, 261-62, 286, 294, 334, 348, 374; Coleman, 1987: 3-4).

In the post-war period British companies became increasingly aware of the success of American companies and thus were receptive to changes proposed by management consultants advocating strategies adopted by clients in the US (Clark, 1987: 339; Kogut and Parkinson, 1993: 192; Turner, 1969: 423-24, 432-33). An important by-product of this pattern was that a wide range of larger British companies adopted the multidivisional managerial hierarchies favoured by American firms (Channon, 1973: 132, 239; Gourvish, 1987: 35; Wilson, 1995: 216). For instance, according to a study of large UK firms by Channon, the fraction with a multidivisional structure grew from 13 per cent in 1950 to 72 per cent in 1970 (Channon, 1973: 67-70). A follow up study by Whittington and Mayer registered a figure of 89 per cent in a 1983 sample (Whittington and Mayer, 2000: 174). These statistics imply that "British industry…adopted the multidivisional with the enthusiasm of a convert (Whittington and Mayer, 2000: 175)."

It is open to question, however, whether the managerial structures in UK companies really changed fundamentally in the decades following World War II. As Channon said in his 1973 study, British multidivisional companies:

> "tended to be less developed than the US concerns in their planning, control and management development techniques, had not divorced policy and operations to the same degree, did not directly reward performance, and had not developed the widespread US practice of a cadre of central staff general executives to monitor the activities of division managers (Channon, 1973: 217; see also 239-40)."

In other words, in many companies the multidivisional format was merely grafted on to the existing organisation, leaving such firms "with the form of modern management but not the substance" (Kogut and Parkinson, 1993: 197; see also Gospel, 1992: 110-11; Jones, 1998-99: 14-15).[2] When there was a compromise of this sort, the management system was ill-equipped to deliver the key potential dividend of the multidivisional format: the effective separation of corporate policy-making from day-to-day operating issues (Channon, 1973: 242; Kirby, 1994: 162; Kogut and Parkinson, 1993: 196).[3]

4.6 A Tentative Verdict

Let us draw things together. One theme that recurs in the foregoing evaluation of British management was at least some improvement over time, such as a growing number of managers having university degrees, an expansion of business education and increased adoption of the multidivisional format. One likely explanation for this trend was that British companies were being forced to operate under increasingly strict market discipline and responded by revamping the managerial function to some degree (Blackford, 1998: 187-88; Channon, 1973: 48-49; Owen, 1999: 422-23).

One source of intensified competitive pressure was a growing willingness on the part of British public to accept standardisation and pre-packaging. This reorientation created a bias in favour of large batch production in big plants and correspondingly placed at risk those firms that failed to exploit economies of scale (Blackford, 1998: 191; Chandler, 1976: 49). Rising affluence and declining protectionism created a similar kind of pressure since larger potential markets were being created both at home and abroad (Hannah, 1983: 146; Kirby, 1994: 158). At the same time, firms that were laggards in a particular industry could not assume that a protected market would provide a margin for error since reduced trade barriers and the enactment of legislation proscribing anti-competitive alliances and related restricted practices were increasing the intensity of market forces (Broadberry, 1997: 14; Chandler, 1976: 48-49; Gospel, 1992: 107).

While, in a changing competitive milieu, it probably became harder for badly run companies to survive (Owen, 1999: 422), offering British management a clean bill of health seems unwise. The discipline imposed by market forces was uneven, in part because companies in the 1950s and 1960s typically were beneficiaries of "a sellers' market of unparalleled proportions" where customers "just fell over themselves to get aboard" (Turner, 1969: 64-65, 439; see also More, 1997: 347-48). Also, as we have seen, arguments can be made that, between the 1950s and the 1980s, talented individuals shied away from taking up managerial positions, incumbent executives were poorly motivated and administrative hierarchies were pale imitations of optimal structures. The upshot is that, despite some modernisation during the period when a separation of ownership and control was becoming entrenched in UK companies, managerial quality may still have been lacking in key respects.

5. Institutional Intermediaries and the Separation of Ownership from Control

For present purposes, it is not necessary to offer any final verdict on the capabilities of British management during the decades immediately following World War II. It is sufficient to say instead that the proposition that Britain's corporate leadership was plagued with serious inadequacies has a plausible factual foundation. For the sake of argument, assume this pessimistic version of events is correct. One is then left to wonder how the UK's system of ownership and control evolved in the manner it did. The fact that it became the norm for larger British business enterprises to have diffuse share ownership implies that investors felt it was worthwhile to take on the risks associated with owning tiny holdings in particular companies. It seems implausible, however, that potential shareholders could be sufficiently confident to purchase equity where there were doubts about the ability of executives to respond appropriately to market conditions and to avoid serious lapses of judgment. How, then, did ownership separate from control in the United Kingdom?

To account for how diffuse share ownership became the norm in larger UK companies when corporate decision-making was potentially afflicted by amateurish and poorly motivated executives, it is important to bear in mind that radical changes were occurring with respect to the identity of shareholders. As of 1957, domestic institutional investors (pension funds, insurance companies, unit trusts and investment trusts) owned 18 per cent of all UK quoted equities (Briston and Dobbins, 1978: 19). Supported by a consistent trend in favour of net buying of shares in British companies, this figure rose to 31 per cent in 1963, 43 per cent in 1975, 52 per cent in 1979 and 61 per cent in 1992 (Cheffins, 2001: 103; Briston and Dobbins, 1978: 3-4, 13, 19; Littlewood, 1998: 257). The available evidence suggests that over the same period, individuals engaged in persistent selling and thus were net disposers of company securities (Briston and Dobbins, 1978: 1, 11-13). Correspondingly, the shift to dispersed ownership that occurred when the quality of corporate management was in doubt had a strong institutional momentum. Matters therefore need to be considered from the perspective of UK financial intermediaries.

5.1 The "Cult of the Equity"

One key trend that brought institutional investors to the forefront in Britain was a policy of switching from fixed income securities (e.g. sovereign debt instruments such as gilts) to equities. In the late 1940s, memories of the Wall Street crash of 1929 were fresh and interest rate stability was the order of the

day (Littlewood, 1998: 9-10). Correspondingly, fixed interest securities were popular and corporate equity was a somewhat disreputable member of the investment family (Clayton and Osborn, 1965: 123, 132; Littlewood, 1998: 9-10). Matters changed rapidly in the 1950s when a "cult of the equity" took hold in Britain (Clayton and Osborn, 1965: 133; Littlewood, 1998: 122). The primary ingredient of this "cult" was a readjustment in investment priorities by insurance companies and pension funds in favour of shares (Briston and Dobbins, 1978: 12-13). During the 1950s and the early 1960s, these institutions typically built up their holdings of UK equity from around 10 per cent of their asset base to between 30 and 40 per cent (Littlewood, 1989: 121-22).[4]

If British companies were badly managed, why did this re-weighting take place? Part of the explanation was that key fixed income investment vehicles were falling in value in real terms due to inflationary conditions (Littlewood, 1998: 107-8, 120; Prais, 1976: 117). At the same time, it was a successful era for the stock market investor. Share prices, as measured by the FT Index, delivered an inflation-adjusted return of approximately 75 per cent between 1951 and 1964 (Littlewood, 1998: 120). Correspondingly, as a matter of investment strategy, the reallocation of assets carried out by pension funds and insurance companies made sense (Blake, 1995: 353).

The stock market returns that UK companies delivered might suggest that, contrary to the assumption about corporate decision-makers under which we are working, investors were being rewarded for glowing management performance (Littlewood, 1998: 121). This, however, does not appear to be the case, as earnings figures indicate. The profits of stock market companies did grow between 1951 and 1964. On an inflation-adjusted basis, however, the improvement was minimal (Littlewood, 1998: 121). The simultaneous increase in share prices correspondingly was a product of investors placing a higher valuation on the earnings potential of UK companies rather than being the result of significant improvements in underlying corporate performance (Littlewood, 1998: 86, 121).

The reassessment of the quality of earnings of UK companies was partly a product of a chronically low valuation of equities that had set in at the end of Labour's 1946-51 term in office (Littlewood, 1998: 121). An additional consideration may have been misplaced optimism concerning the business environment in which British firms were operating. In the UK, the 1950s and 1960s were characterized by a rapid acceleration of domestic demand, a steady expansion in world trade and an ongoing expectation of rising living standards (Littlewood, 1998: 107; Turner, 1969: 59-60). Admittedly, doubts about continued economic buoyancy did become pronounced at the end of the 1960s

(Gospel, 1992: 106). Still, Prime Minister Harold Macmillan's statement "you've never had it so good" generally reflected the mood of the nation (Littlewood, 1998: 107). In this milieu, the economic conditions presumably would have helped to bolster confidence in the UK corporate sector among those making investment decisions on behalf of institutional shareholders.

It transpired that the economic buoyancy of the 1950s and 1960s had adverse long-term consequences for UK companies. Since there was a "robust seller's market" and customers "just got into the queue", complacency set in at many firms and essential restructuring was correspondingly postponed (Littlewood, 1998: 122, 136; Turner, 1969: 64-66). A particularly detrimental by-product of managerial passivity was a steady growth in the power of trade unions since strikes and related disruptions were destined to have a serious adverse impact on the performance of many UK companies (Littlewood, 1998: 136). Despite these counterproductive trends, however, there was continued momentum in favour of the purchase of corporate equity. Why was this the case?

The methods used by those making investment decisions on behalf of institutional investors to judge companies account at least partially for the pattern. Quality of management was a factor that was taken into consideration in the buying and selling of shares (Clayton and Osborn, 1965: 183). Nevertheless, the "hard" information of known facts such as a company's earnings per share and its dividend yield constituted the pivotal benchmarks (Briston and Dobbins, 1978: 66-67).[5] During the 1950s and 1960s, as mentioned, corporate profits were rising. Also, British companies were declaring generous dividends (Littlewood, 1998: 136). Correspondingly, even if the quality of corporate decision-making in the UK companies was sub-optimal, there was sufficient evidence of corporate success for financial intermediaries to justify readjusting asset allocations in favour of equity.

5.2 Changing Saving Patterns

The switching from fixed income securities to equity goes only part of the way to explain why institutional investors ultimately emerged as the focal point of share ownership in the United Kingdom. Also pivotal were massive cash inflows experienced by financial intermediaries, since the ultimate effect was to make institutional investors net purchasers of corporate equity even when asset allocations remain unchanged (Littlewood, 1998: 159, 255; Owen, 1999: 398). Data compiled by Prais gives a sense of the amounts involved. According to his figures, between 1952 and 1972, total holdings of insurance companies, pension funds, investment trusts and unit trusts rose from £12.2 billion to £43.3 billion (Prais, 1976: 116; for additional statistics, see Pollard, 1992: 332-33).

The flourishing of occupational pension schemes (those organized by the companies for which people work) was one reason for the dramatic increase in the value of assets under the management of financial intermediaries. For instance, with respect to private sector employers, membership increased from 4 million in the mid-1950s to 8 million in the mid-1960s (Blake, 1995: 30). Also significant were shifting saving patterns. The public went on a spending spree after the years of wartime austerity. Subsequently, though, personal savings grew rapidly and the funds in question were increasingly entrusted to financial intermediaries such as insurance companies, private pension plans, investment trusts and unit trusts (Clayton and Osborn, 1965: 19-22, 28). Underpinning the switch to institutional investment was a change in strategy by private individuals with money available to invest in the stock market. Many of those who formerly would have purchased corporate equity directly opted to rely instead on institutional options. Motives included the diversification of risk at reduced cost and the exploitation of tax privileges associated with investment via financial intermediaries (Briston and Dobbins, 1978: 13-14; David Hume Institute, 1991: 31, 34; Michie, 1992: 130).

By virtue of the growing accumulation of assets under management, institutional investors could struggle to find enough suitable outlets for available capital (Dennett, 1998: 316). Correspondingly, there was a strong impetus in favour of the acquisition of shares in UK companies even when portfolio allocations remained static. Events occurring between 1966 and 1975 illustrate the point (see Briston and Dobbins, 1978: 14-18). During this period, pension funds, insurance companies, unit trusts and investment trusts did not increase their holdings of UK equities as a percentage of total assets. On the other hand, since these various financial intermediaries were the recipients of rapidly growing pools of capital, they were net purchasers of shares in all years except 1974 (Briston and Dobbins, 1978: 11-12). The result (admittedly due partially to inflation) was that the value of equity owned increased substantially. The relevant figures for 1966 and 1975 were £2.2 billion and £6 billion respectively for insurance companies, £1.6 billion and £4.2 billion for pension funds, £453 million and £1.8 billion for unit trusts and £1.6 billion and £2.6 billion for investment trusts. This trend indicates that, even if concerns about the quality of British management had curbed the reallocation of assets under management in favour of shares, there would have been continued momentum in favour of increased institutional ownership of corporate equity.

6. "Trapped Capital"?

6.1 The Overseas Option

To this point, the account that has been offered to explain why investors bought shares in UK companies even if doubts existed about the quality of management has been based at least partially on constrained choices. To reiterate, financial intermediaries bought shares in part because the returns being delivered by the primary alternative – fixed income securities – were disappointing. Still, shares in UK companies were not the inevitable destination for the available funds. Instead, other possibilities, such as bonds issued by foreign governments and securities distributed by overseas companies, could theoretically have become more popular.

To illustrate, consider the position of owners of financial assets in the UK prior to World War I. As the 20th century began, misgivings were already being expressed about the quality of management of British companies (Aldcroft, 1964: 114). For those with capital to invest who were influenced by this line of thinking, they had plenty of choices other than domestic equity. Before 1914, the UK government exercised little control over either the volume or direction of British overseas investment.[6] Also, London was the largest and most sophisticated capital market in the world and accommodated trading in a wide range of foreign securities (Cassis, 1990: 1; Michie, 2000: 273, 282-3, 288). Indeed, by 1913 foreign securities constituted 60 per cent of paid up capital on the London Stock Exchange (Davis and Gallman, 2001: 159; Michie, 1990: 95, 97-98). British investors who had misgivings about returns available on domestic investments correspondingly had a wide range of international options and these were taken up to a substantial degree. Approximately one-third of total British capital holdings was invested in foreign assets immediately prior to World War I (Davis and Gallman, 2001: 58; Pollard, 1985: 491).

6.2 Exchange Controls

Switch now to the decades immediately following World War II and assume that UK investors were uneasy about the quality of management in Britain. A possible response would have been to follow the pre-World War I pattern and forsake Britain in favour of other jurisdictions. Following through may not have been feasible, however, because restrictions on overseas portfolio investment would have come into play.

The complex regulatory regime, which was initially introduced under the 1947 Exchange Control Act and was restructured on various occasions until its

abolition in 1979, worked as follows (Bond *et al.*, 1987: 18-21). In effect, a new purchase of foreign securities by a British resident had to be financed by a sale by some other resident. All dealing in overseas portfolio investment occurred through the medium of "investment currency" which was freely traded between residents but sold at a significant premium (i.e. the exchange rate in the investment currency market was below the official rate) by virtue of its scarcity.[7] In principle, this arrangement restricted new portfolio investment overseas to zero, but there were limited leaks and concessions that offered some scope for a net increase in overseas portfolio holdings.[8] Still, the "investment currency premium" acted as an implicit tax on portfolio investments overseas and turnover was further suppressed during the 1960s and the 1970s by a "surrender arrangement" which required that 25 per cent of the proceeds of the sale of foreign currency securities be converted to pounds sterling at the less favourable official exchange rate.[9]

A plausible hypothesis is that the restrictions on overseas portfolio investment had an impact on the ownership structure of the UK's publicly quoted companies. If British-based financial intermediaries had been operating in a fully deregulated environment, a logical reaction to scepticism concerning domestic corporate executives would have been to forsake domestic equity in favour of overseas investment opportunities. This, in turn, might have precluded the shift to dispersed ownership structures that took place in the decades following World War II. Exchange controls over capital movements in place potentially caused investors to conduct themselves differently. Since financial intermediaries would have been aware that there were significant costs associated with the overseas option, they might well have concluded that the prudent choice was to accept the risk that British companies suffered from managerial deficiencies and invest domestically regardless. The result would have been momentum in favour of increasingly dispersed share ownership that was driven at least partially by exchange controls.

6.3 The Practical Effect of Regulation

Data covering the period between 1979, when British residents became free to invest their money overseas, and 1985 suggests that exchange controls did affect choices made to some degree. For instance, during these years, there was an increase in foreign portfolio holdings from £12 billion to £100 billion (Bond *et al.* 1987: 5). Also, British life insurance companies increased the proportion of the assets they held in foreign corporate securities from 2.7 per cent in 1979 to 9.3 per cent in 1985 while UK pension funds increased their share from 5.4 per cent to 13.7 per cent (Bond *et al.* 1987: 28-29). The pattern was the same for unit trusts and investment trusts, with the corresponding figures being 19.8

per cent and 34.1 per cent for unit trusts and 31.8 per cent and 46.1 per cent for investment trusts.[10]

Still, while restrictions on foreign portfolio investment did have a tangible impact, attributing the shift in the pattern of ownership and control experienced by UK companies in the decades following World War II to "trapped capital" ultimately seems unwise. One reason is that a "home bias" would have been in operation regardless of the regulatory milieu. A well-established fact in the financial economics literature is that, regardless of regulatory constraints, investors hold, on a risk-adjusted basis, too little of their wealth in foreign assets (Dahlquist *et al.*, 2002: 1; Zhu, 2002: 1). Presumably, this home bias would have affected UK financial intermediaries from the end of the 1940s to the end of the 1970s.[11] Correspondingly, regardless of exchange controls, there would have been momentum in favour of the purchase of shares of UK companies.

Statistics on the post-1979 portfolio allocations of British institutional investors also indicate that exchange controls probably did little to accelerate the dispersion of share ownership. If UK financial intermediaries in fact had serious reservations about the quality of management in British companies but bought domestic equity as a "second best" strategy, they should have responded to deregulation by switching out of UK shares in favour of the foreign option. Investment and unit trusts in fact did cut, as a proportion of total assets, their holdings of domestic equity between 1979 and 1985 (Bond *et al.*, 1987: 29). Pension funds and insurance companies did likewise with domestic government securities and UK property (Bond *et al.*, 1987: 29). Contrary, though, to what would have happened if a "trapped capital" effect was dictating a shift towards diffuse ownership of shares in British companies, pension fund holdings of domestic corporate equity increased from 44.1 per cent to 51.4 per cent of total investments between 1979 and 1985. The trend was the same for insurance companies, with the corresponding figures being 29.8 per cent and 36.1 per cent (Bond *et al.*, 1987: 29). It follows that, despite the persistent accusations of mismanagement in British industry, financial intermediaries were content to own shares in UK companies regardless of options that might have been available to invest overseas.

7. Conclusion

In the contemporary discourse on corporate governance systems, little has been said about the quality of management. This presumably is because it has been taken for granted that there must be good managers in order for diffuse share ownership to become the norm in larger companies. The logic, after all, seems intuitively obvious since a primary benefit of a separation of ownership and control in a large business enterprise is the fostering of a beneficial division of labour between investment and management.

Though the conjecture that good managers will necessarily be associated with a separation of ownership and control has a plausible ring to it, developments occurring in Britain cast doubt on the logic involved. The problem is that in the UK an outsider/arm's length system of ownership and control became the norm in circumstances where serious doubts existed about the capabilities of British business leaders. There are various potential explanations for what happened. One possibility is that the case against British managers was weaker than has been supposed. During the decades following World War II, there was a shift in favour of greater meritocracy, better management training and increasingly sophisticated administrative hierarchies. Perhaps, then, managerial quality was high enough to allow those contemplating whether to buy shares in UK companies to feel sufficiently confident enough to proceed.

Matters, however, cannot be left at this. Even if there were some improvements with respect to the management of British companies, many remain convinced that the country's corporate leadership was seriously deficient during the period when dispersed ownership became the norm in larger business enterprises. Correspondingly, this paper has sought to explain why investors might have purchased shares in UK companies in circumstances where doubts existed about how well the firms were being run. Considerable stress has been placed on the position of institutional investors, since the rise of financial intermediaries as owners of corporate equity coincided with the move towards a separation of ownership and control. Essentially, it appears that equity became popular with financial intermediaries in the decades following World War II because they needed new outlets for a massive pool of new money flowing into the investment market. Also, as compared with fixed-income securities, the return on shares was good, at least when Britain was enjoying buoyant economic conditions during the 1950s and 1960s. In the face of these trends, potential managerial shortcomings apparently were not a pivotal driver with respect to investment decisions.

Overseas investment patterns also indicate that the quality of management in UK companies was not a serious concern for financial intermediaries as ownership separated from control. If those making investment decisions on behalf of institutional investors had been apprehensive about how well UK companies were being managed, a possible response would have been to shift assets overseas. The ability of investors to buy foreign securities was constrained, however, by exchange controls from 1947 to 1979. Still, it is unlikely that a "trapped capital" effect considerably strengthened the trend towards a separation of ownership and control in British companies. UK institutional investors admittedly did reduce the domestic orientation of their asset portfolio in some ways when exchange controls were lifted. Still, the re-weighting that took place did not betray a serious lack of confidence in the quality of British corporate executives since domestic companies grew in importance as a destination for investment for pension funds and insurance companies after 1979.

A final observation. This paper has sought to explain, by reference to a transition to institutional investment, how a shift towards dispersed ownership occurred in the UK when serious doubts existed about the quality of British managers. An implicit assumption that has been made is that financial intermediaries would be the sort of arm's-length investors which a separation of ownership and control implies. There was, however, an intriguing hypothetical opportunity for the reconcentration of share ownership around an institutional axis. Essentially, what could have taken place is that financial intermediaries, being aware of problems in Britain's boardrooms, could have addressed the situation by taking large equity stakes in individual companies. They then would have acted as "hands on" monitors so as to remedy potential deficiencies in the quality of corporate decision-making (Kirby, 1994: 160; Roe, 1997: 17-18).

This sort of reconfiguration did not happen. Instead, even the largest financial intermediaries confined themselves where possible to a stake of less than 10 per cent of a company's outstanding shares (Dennett, 1998: 316). Moreover, despite much exhortation to institutional investors to involve themselves in managerial decision-making, the traditional reaction to unsatisfactory corporate performance was either to dispose of existing holdings or to take some corrective measures behind the scenes (Briston and Dobbins, 1978: 5, 54). Open intervention in corporate affairs would only occur if there was patent evidence of mismanagement.

What accounted for the passivity of Britain's institutional investors? Historians have had little to say on the point,[12] but plausible explanations can nevertheless

be advanced. For instance, Britain's financial intermediaries may have taken a "hands-off" approach because of concerns that they suffered from limited institutional capabilities (top personnel were experts in investment rather than business) and that overt "interference" by institutions would foster calls for nationalisation (Briston and Dobbins, 1978: 56-57; Cheffins, 2001: 103, 106-7; Clayton and Osborn, 1965: 188-89). Additional research on the topic is required, however, to explain fully why, once ownership separated from control in circumstances where doubts existed about managerial quality, there was not a major reversal in an institutional direction.

Notes

[1] This did not mean that UK companies were free from criticism on the nepotism count. See, for example, Jones and Barnes, 1967: 225; Florence, 1972: 378.

[2] Not all observers agree (e.g. Whittington and Mayer, 2000: 178).

[3] A caveat is in order. Since it has proved difficult to establish empirically that a shift to the multidivisional format yields superior returns, it cannot be taken for granted that hesitancy in Britain had serious adverse consequences. See Fitzgerald, 1995: 36-38, 50; Gourvish, 1987: 40.

[4] For statistics covering from 1957 to 1972, see Prais, 1976: 117. For a detailed analysis of trends with insurance companies, see Clayton and Osborn, 1965: 125, 131-36.

[5] On the distinction between "hard" information and "soft" or uncertain information, see Gilson and Kraakman, 1984: 561-63.

[6] The primary example of regulation was legislation specifying permissible trust fund investments where the trust deed was silent on the issue (Atkin, 1977: 17-23).

[7] Within a week of the introduction of the regulatory regime in 1947, the premium reached 20% (Littlewood, 1998: 30).

[8] For statistics on actual fluctuations in portfolio investment abroad between 1958 and 1968, see Cohen, 1972: 37.

[9] The 25 per cent surrender rule contributed more than £1 billion to Britain's foreign exchange reserves between 1965 and 1978 (Bond *et al.*, 1987: 23).

[10] Bond, Davis and Devereux, Capital, *supra* note xx, 29.

[11] The fact that after 1979 British investors failed to invest overseas to the extent that economic theory would predict (Bond *et al.*, 1987: 58) lends support to this proposition.

[12] For an exception, see Dennett, 1998: 296-301, 316.

References

Action Society Trust (1956), *Management Succession* (Action Society Trust).

Aldcroft, Derek H. (1982), 'Britain's Economic Decline 1870-1990' in Gordon Roderick and Michael Stephens (eds.), *The British Malaise: Industrial Performance, Education & Training in Britain Today* (Barcombe: Falmer Press, 1982), 31-61.

Aldcroft, Derek H. (1992), *Education, Training and Economic Performance 1944 to 1990* (Manchester: Manchester Univ. Press).

Aldcroft, D.H. (1964), 'The Entrepreneur and the British Economy, 1870-1914', *Economic History Review* (NS) 17: 113-34.

Aldcroft, Derek H. (1995), 'The Missing Dimension: Management Education and Training in Postwar Britain' in Derek Aldcroft and Anthony Slaven (eds.), *Enterprise and Management* (Scolar Press, 1995), 93-125.

Armour, John *et al.* (2002), 'Corporate Ownership Structure and the Evolution of Bankruptcy Law: Lessons from the United Kingdom', *Vanderbilt Law Review* 55: 1699-1785.

Atkin, John Michael (1977), *British Overseas Investment 1918-1931* (New York: Arno Press).

Barry, Bernard (1989), 'Management Education in Great Britain', in William Byrt (ed.), *Management Education: An International Survey* (London: Routledge, 1989), 57-77.

Berle, Adolf and Means, Gardiner (1932), *The Modern Corporation and Private Property* (New York: Harcourt, Brace and World Inc.).

Blackford, Mansel G. (1998), *The Rise of Modern Business in Great Britain, the United States and Japan*, 2nd ed. (Chapel Hill: UNC Press).

Blake, David (1995), *Pension Schemes and Pension Funds in the United Kingdom* (Oxford: Clarendon Press).

Bond, Stephen *et al.* (1987), *Capital Controls: The Implications of Restricting Overseas Portfolio Capital* (London: Institute for Fiscal Studies).

Briston, Richard J. and Dobbins, Richard (1978), *The Growth and Impact of Institutional Investors* (London: Institute of Chartered Accountants in England and Wales).

Broadberry, Stephen N. (1997), *The Productivity Race: British Manufacturing in International Perspective* (Cambridge: Cambridge University Press).

Butler, Henry N. (1989),'The Contractual Theory of the Corporation', *George Mason University Law Review* 11: 99-123.

Cassis, Youssef, (1990), 'British Finance: Success and Controversy' in J.J. van Helten and Y. Cassis (eds.), *Capitalism in a Mature Economy: Financial Institutions, Capital Exports and British Industry, 1870-1939* (Aldershot: Edward Elgar), 1-22.

Chandler, Alfred D. (1976), 'The Development of Modern Management Structure in the US and the UK', in Leslie Hannah, (ed.), *Management Strategy and Business Development: An Historical and Comparative Study* (London: Macmillan), 24-51.

Chandler, Alfred D. (1977), *The Visible Hand: The Managerial Revolution in American Business* (Cambridge, Mass.: Belknap Press).

Chandler, Alfred D. (1990), *Scale and Scope: The Dynamics of Industrial Capitalism* (Cambridge, Mass.: Belknap Press).

Cheffins, Brian R. (1997), *Company Law: Theory, Structure and Operation* (Oxford: Oxford University Press).

Cheffins, Brian R. (2001), 'History and the Global Corporate Governance Revolution: The UK Perspective', *Business History* 43(4): 87-118.

Cheffins, Brian R. (2002), 'Putting Britain on the Roe Map: The Emergence of the Berle-Means Corporation in the United Kingdom', in J.A. McCahery *et al.* (eds.), *Corporate Governance Regimes: Convergence and Diversity*, (Oxford: Oxford University Press), 147-72.

Cheffins, Brian R. (2003*a*), 'Investor Sentiment and Antitrust Law as Determinants of Corporate Ownership Structure: The Great Merger Wave of 1897 to 1903', unpublished working paper.

Cheffins, Brian R. (2003*b*), 'Mergers and the Evolution of Patterns of Corporate Ownership and Control: The British Experience', (2003), unpublished working paper.

Claessens, Stijn *et al*. (2000), 'The Separation of Ownership and Control in East Asian Corporations', *Journal of Financial Economics* 58: 81-112.

Clark, Peter A. (1987), *Anglo-American Innovation* (Berlin: Walter de Gruyter).

Clayton, George and Osborn, W.T. (1965), *Insurance Company Investment: Principles and Policy* (London: George Allen & Unwin Ltd.).

Clutterbuck, David and Crainer, Stuart (1988), *The Decline and Rise of British Industry* (London: Mercury Books).

Cohen, Benjamin J. (1972), 'The United Kingdom as an Exporter of Capital', in Fritz Machlup, Walter S. Salant and Lorie Tarshis (eds.), *International Mobility and Movement of Capital* (New York: NBER), 25-49.

Coleman, D.C. (1987), 'Failings and Achievements: Some British Businesses, 1910-1980', *Business History* 39(4): 1-17.

Constable, John and McCormick, Roger (1987), *The Making of British Managers* (London: British Institute of Management/Confederation of British Industry).

Dahlquist, Magnus *et al*. (2002), 'Corporate Governance, Investor Protection, and the Home Bias', unpublished working paper.

David Hume Institute (1991), *Corporate Takeovers and the Public Interest* (Aberdeen: Aberdeen University Press).

Davies, Stephen and Caves, Richard E. (1987), *Britain's Productivity Gap* (Cambridge: Cambridge Univ. Press).

Davis, Lance E. and Gallman, Robert E. (2001), *Evolving Financial Markets and International Capital Flows: Britain, the Americas, and Australia, 1865-1914* (Cambridge: Cambridge Univ. Press).

Dennett, Laurie (1998), *A Sense of Security: 150 Years of Prudential* (Cambridge: Granta).

Dubin, Robert (1970), 'Management in Britain – Impressions of a Visiting Professor', (1970) *Journal of Management Studies* 7: 183-98.

Dunning, John H. (1970), *Studies in International Investment* (London: George Allen & Unwin).

Dunning, John H. (1988) *Multinationals, Technology and Competitiveness* (London: Unwin Hyman).

Easterbrook, Frank H. and Fischel, Daniel R. (1989), 'The Corporate Contract', *Columbia Law Review* 89: 1416-48.

Egginton, Don *et al* (1993), 'Executive and Employee Share Options: Taxation, Dilution and Disclosure', *Accounting and Business Research* 23: 363-72.

Faccio, Mara and Lang, Larry H.P. (2002), 'The Ultimate Ownership of Western European Corporations', *Journal of Financial Economics* 65: 365-95.

Fama, Eugene F. and Jensen, Michael C. (1983), 'Separation of Ownership and Control', *Journal of Law and Economics* 26: 301-25.

Fitzgerald, Robert (1995), 'Ownership, Organization, and Management: British Business and the Branded Consumer Goods Industries', in Youssef Cassis *et al.* (eds.), *Management and Business in Britain and France: The Age of the Corporate Economy* (Oxford: Oxford University Press), 31-51.

Florence, P. Sargent (1972), *The Logic of British and American Industry*, 3rd ed. (London: Routledge & Kegan Paul).

Francis, Arthur (1980), 'Families, Firms and Finance Capital: The Development of UK Industrial Firms with Particular Reference to Their Ownership and Control', *British Journal of Sociology* 14: 1-27.

Galambos, Louis (2000), 'The US Corporate Economy in the Twentieth Century' in Stanley L. Engerman and Robert E. Gallman (eds.), *The Cambridge Economic History of the United States, Volume III: The Twentieth Century* (Cambridge: Cambridge Univ. Press, 2000), 927-67.

Gilson, Ronald J. and Kraakman, Reinier H. (1984), 'The Mechanisms of Market Efficiency', *Virginia Law Review* 70: 549-643.

Gospel, Howard F. (1992), *Markets, Firms, and the Management of Labour in Modern Britain* (Cambridge: Cambridge Univ. Press).

Gourvish, T.R. (1987), 'British Business and the Transition to a Corporate Economy: Entrepreneurship and Management Structures', *Business History* 39(4): 18-45.

Granick, David (1972), *Managerial Comparisons of Four Developed Countries: France, Britain, United States and Russia* (Cambridge Mass: MIT Press).

Handy, Charles *et al.* (1987), *The Making of Managers: A Report on Management Education, Training and Development in the USA, West Germany, France, Japan and the UK* (London: Manpower Services Commission, National Economic Development Council, British Institute of Management).

Hannah, Leslie (1983), *The Rise of the Corporate Economy*, 2nd ed. (London: Methuen).

Hussey, David E. (1988), *Management Training and Corporate Strategy: How to Improve Competitive Performance* (Oxford: Pergamon Press).

Jones, G.G. (1998-99), 'Corporate Governance and British Industry', University of Reading Department of Economics Discussion Paper in Economics and Management (No. 399).

Jones, Glyn and Barnes, Michael (1967), *Britain on Borrowed Time* (Harmondsworth, UK: Penguin).

Keeble, S.P. (1992), *The Ability to Manage: A Study of British Management* (Manchester: Manchester Univ. Press).

Kirby, Maurice W. (1994), 'The Corporate Economy in Britain: Its Rise and Achievements Since 1900' in Maurice W. Kirby and Mary B. Rose (eds.), *Business Enterprise in Modern Britain: From the Eighteenth to the Twentieth Century* (London: Routledge), 139-71.

Kogut, Bruce and Parkinson, David (1993), 'The Diffusion of American Organizing Principles to Europe', in Bruce Kogut (ed.), *Country Competitiveness: Technology and the Organizing of Work* (Oxford: Oxford Univ. Press), 179-202.

La Porta, Rafael *et al.* (1998), 'Law and Finance', *Journal of Political Economy* 106: 1113-55.

La Porta, Rafael *et al.* (1999), 'Corporate Ownership Around the World', *Journal of Finance* 54: 491-517.

La Porta, Rafael *et al.* (2000), 'Investor Protection and Corporate Governance', *Journal of Financial Economics* 58: 3-27.

Lane, Christel (1989), *Management and Labour in Europe: The Industrial Enterprise in Germany, Britain and France* (Aldershot: Edward Elgar).

Lazonick, William (1991), *Business Organization and the Myth of the Market Economy* (Cambridge: Cambridge Univ. Press).

Littlewood, John (1998), *The Stock Market: 50 Years of Capitalism at Work* (London: Pitman).

Locke, Robert R. (1989), *Management and Higher Education Since 1940: The Influence of America and Japan on West Germany, Great Britain and France* (Cambridge: Cambridge Univ. Press).

Marris, Robin (1964), *The Economic Theory of 'Managerial' Capitalism* (New York: Free Press of Glencoe).

Matthews, Derek (1998), 'The Business Doctors: Accountants in British Management from the Nineteenth Century to the Present Day', *Business History* 40(3): 72-103.

Michie, Ranald C. (1990), 'The Stock Exchange and the British Economy, 1870-1939' in J.J. van Helten and Y. Cassis (eds.), *Capitalism in a Mature Economy: Financial Institutions, Capital Exports and British Industry, 1870-1939* (Aldershot: Edward Elgar), 95-114.

Michie, Ranald C. (1992), *The City of London: Continuity and Change, 1850-1990* (Basingstoke: Macmillan).

Michie, Ranald (2000), 'Different in Name Only? The London Stock Exchange and Foreign Bourses, c. 1850-1914' in R.C. Michie, ed., The Development of London as a Financial Centre (London: I.B. Tauris), 273-91.

More, Charles (1997), *The Industrial Age: Economy and Society in Britain 1750-1995*, 2nd ed (Harlow: Longman, 1997).

Nyman, Steve and Silberston, Aubrey (1978), 'The Ownership and Control of Industry', *Oxford Economic Papers*, NS 30: 74-101.

O'Sullivan, Mary (2000), *Contests for Corporate Control: Corporate Governance and Economic Performance in the United States and Germany* (Oxford: Oxford University Press, 2000).

Owen, Geoffrey (1999), *From Empire to Europe: The Decline and Revival of British Industry Since the Second World War* (London: Harper Collins).

Parker, Hugh (1976), 'The Effective Executive: What is He Worth?', *McKinsey Quarterly*, Winter 1976, 22-29.

Payne, Peter L. (1990), 'Entrepreneurship and British Economic Decline' in Bruce Collins and Keith Robbins (eds.), *British Culture and Economic Decline* (London: Weidenfeld and Nicolson), 25-58.

Penrose, Edith T. (1963), *The Theory of the Growth of the Firm* (Oxford: Blackwell).

Pollard, Sidney (1985), 'Capital Exports, 1879-1914: Harmful or Beneficial', *Economic History Review* 38: 489-514.

Pollard, Sidney (1992), *The Development of the British Economy*, 4th ed. (London: Edward Arnold).

Prais, S.J. (1976), *The Evolution of Giant Firms in Britain: A Study of the Growth of Concentration in Manufacturing Industry in Britain 1909-70* (Cambridge: Cambridge University Press).

Roe, Mark J. (1994), *Strong Managers, Weak Owners: The Political Roots of American Corporate Finance* (Princeton, NJ: Princeton University Press).

Roe, Mark J., (1997), 'The Political Roots of American Corporate Finance', *Journal of Applied Corporate Finance* 9(4): 8-22.

Roe, Mark J. (2000), 'Political Preconditions to Separating Ownership from Corporate Control', *Stanford Law Review* 53: 539-606.

Roe, Mark J. (2001), 'The Quality of Corporate Law Argument and its Limits', Columbia Center for Law and Economics Working Paper No. 186.

Roe, Mark J. (2002), 'Corporate Law's Limits', *Journal of Legal Studies* 31: 233-71.

Roy, William G. (1997), *Socializing Capital: The Rise of the Large Industrial Corporation in America* (Princeton: Princeton University Press).

Scott, John and Griffe, Catherine (1984), *Directors of Industry: The British Corporate Network 1904-76* (Cambridge: Cambridge University Press).

Shleifer, Andrei and Vishny, Robert W. (1997), 'A Survey of Corporate Governance', *Journal of Finance* 52: 737-83.

Skapinker, Michael (2002), 'No Simple Cure of UK Management', *Financial Times* (US edition), October 23, 2002, 10.

Smith, George David and Dyer, Davis (1996), 'The Rise and Transformation of the American Corporation' in Carl Kaysen (ed.), *The American Corporation Today* (New York: Oxford Univ. Press, 1996), 28-73.

Sterling, Jennifer (2003), 'How Do You Know Whether to Hire a CEO?', *Wall Street Journal*, March 17, 2003, R6.

Tiratsoo, Nick (1997), 'British Management 1945-64: Reformers and the Struggle to Improve Standards' in Etsuo Abe and Terry Gourvish (eds.), *Japanese Success? British Failure? Comparisons in Business Performance Since 1945* (Oxford: Oxford Univ. Press), 77-97.

Turner, Graham (1969), *Business in Britain* (London: Eyre and Spottiswoode).

Useem, Michael (1984), *The Inner Circle: Large Corporations and the Rise of Business Political Activity in the US and the UK* (New York: Oxford University Press).

Wheatcroft, Mildred (1970), *The Revolution in British Management Education* (London: Pitman).

Whitley, Richard *et al,* (1981), *Masters of Business? Business Schools and Business Graduates in Britain and France* (London: Tavistock).

Whittington, Richard and Mayer, Michael (2000), *The European Corporation: Strategy, Structure, and Social Science* (Oxford: Oxford Univ. Press).

Wilson John F. (1995), *British Business History 1720-1994* (Manchester: Manchester Univ. Press).

Zhu, Ning (2002), 'The Local Bias of Individual Investors', Yale ICF Working Paper 02-30.