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Corporate governance in advanced economies: lessons in a post financial crash era
Introduction to the Special Issue

Jackie Krafft and Jacques-Laurent Ravix
Université de Nice-Sophia Antipolis, CNRS-GREDEG

1. Basic ideas

Corporate governance is certainly one of the most prolific fields of research today. Even if the origins of this domain trace back to the early 1930s, and especially to the contribution of Berle and Means (1932), the recent decades have been marked by an explosion in the number of contributions in academic journals. As an illustration, the editorial platform JSTOR notifies a total of 13293 articles containing the exact phrase 'corporate governance', with around 2000 references in the 1980s, 6000 in the 1990s, and 5000 only for the period 2000-mid 2008. Apart from the early contributions like Jensen and Meckling (1976), Fama (1980), Fama and Jensen (1983), Jensen (1986), most cited references published in top economic journals over the recent years are Shleifer and Vishny (1997), Holmstrom and Kaplan (2001), Hart (1995), Hermalin and Weisbach (2003), Gompers, Ishii and Metrick (2003), Klapper and Love (2004), Durnev and Kim (2005), Black, Jang and Kim (2006), Core, Guay and Rusticus (2006).

This effervescence in the academic world has had important echoes in business life. Since 1999, OECD periodically publishes its Principles of Corporate Governance, and has created the OECD Steering Group of Corporate Governance for the co-ordination of the Organisation's work on corporate governance and related corporate affairs issues. Well known business analysts companies like Stern Steward, Boston Consulting Group, or McKinsey have also largely advertised their own services guiding their client companies towards better governance solutions. Corporate governance metrics develops increasingly with the elaboration of dedicated databases ranking companies on the basis of their performance in terms of corporate governance, and every listed company now presents the corporate governance policy in annual reports.

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Though very dynamic, the field is undeniably still far from reaching a maturity phase for several reasons. The first reason is that this field of research is highly multidisciplinary, since it deals with important issues in economics, management, accountability, law, sociology, etc. In each of these disciplines, one can find key contributions that may illuminate some aspects of corporate governance, although a global vision mixing these various advances into a uniform approach is still missing. Here, connections between disciplines would certainly improve the common understanding of what corporate governance is, and how it functions at the level of the firm and at the more aggregated level of the society. The second reason is that even if we do not consider corporate governance at a co-disciplinary level and only adopt a purely economist vision of the problem – as we will do in this special issue[1] – the debate and potentially the conflicts between alternative theories is pretty intense. Only in few other fields have discussions on formerly accepted assumptions been so harsh, and implications in the real world on how firms are governed so controversial. The third reason is that, again for an economist, the object of study may be captured in many different ways, since corporate governance may apply to several types of firms, have various types of implications at the industry level, and be inserted in different institutional frameworks.

In this special issue, we will argue that the financial crash that occurred in the 2000s has played the role of a 'dividing line' between how corporate governance in advanced economies was understood before this event, at a time where corporate scandals multiplied, and how current debates at the academic and societal levels develop today. The reasons on which we base our arguments are the following. Before the financial crash, the common belief was that the shareholder value model of governance, based on disclosure of information and financial primacy, should be applied to all firms, independently of their age, size, activity, and home country. This belief was grounded on several key academic contributions – we cited the most important ones at the beginning of this introduction. At a practical level, the belief involved that companies changed the composition of their boards of directors and audit committees to achieve a super majority of external members. Companies also tracked systematically charter and bylaw provisions as well as anti-takeover provisions, and increasingly linked the executives and directors compensations with stock market performance. However the whole system went up to overheat in the early 2000s, and the expected virtuous cycle of shareholder value "disclosure of information – financial primacy – realignment of the managers'

[1] For an investigation into the co-disciplinary perspective on corporate governance, see the special issue of the International Review of Applied Economics edited by Dietrich, Krafft, and Ravix (2008).

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incentives – higher performance on economic results and stock markets" finally generated vicious outcomes like the emergence of corporate scandals like Enron, Worldcom, Parmalat, and more recently Société Générale. Then came the times of criticism of the shareholder value vision and the need for more contextualised models of corporate governance.

Today, the field of corporate governance appears thus as a place where different hypotheses on corporate governance co-exist, though they tend to be supported by highly opponent theories. The stakeholder perspective is the major alternative to the shareholder value perspective. It argues that there are a lot of different parties contributing to the economic performance and value of the firm. Consequently, all these stakeholders, and not only the capital suppliers, have to be considered as residual claimants (Blair, 1995; Donaldson and Preston, 1995; Kelly et al., 1997; Zingales, 2000; Hansmann, 1996; Driver and Thompson, 2002). Another set of literature, more concerned with the lack of convergence of systems of corporate governance at the international level, advances the idea that a model of corporate governance – being shareholder value oriented or stakeholder value oriented – can not be considered apart from the institutional context where it is implemented. Indeed, one has to take into account the fact that since the 2000s financial markets are more instable, investors more frequently short termists, and more often in position (because of their size, and sometimes aggressive strategies) to impose their view at the level of the board of directors (Aglietta and Rebérioux, 2005; Tylecote, 2007; Allen, 2005; Coffee, 2005; Becht, Jenkinson and Mayer, 2005; Denis and McConnell, 2003; Aoki, 1985). Finally, some contributions originally coming from the economics of innovation and the economics of the firm showed the model of shareholder value increased the ups and downs that innovative firms and innovative industries faced during and after the financial crash, leading to the conclusion that adopting this model is not neutral and even detrimental in some cases to the evolution of innovative firms and industries (Lazonick, 2007; Fransman, 2004; Krafft and Ravix, 2005, 2008).

2. Content

The papers presented in this special issue take up the different aspects of the topics raised above and composing the new vision of corporate governance taking the lessons of the post financial crash era. The authors of these papers have largely contributed to the development of

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this new vision[2]. Ciaran Driver looks at corporate governance with the lenses of the economics of the firm. He shows that even if new guiding principles are necessary, especially after the financial crash and its attendant of corporate scandals, the only immediate possibility is to centre the analysis on the firm in the long run. However a definite distinction between the shareholder and stakeholder value perspectives may not be necessarily robust on this basis. He thus argues that new principles of corporate governance may be achievable only if one re-examines the respective role of institutional investors and managerial capitalism, as this is suggested in recent US governance reforms. Krafft, Qu and Ravix analyse corporate governance in view of its impact on the evolution of industries. They relate corporate governance, industry dynamics and firms performance at a theoretical level. They find evidence at the empirical level in Europe that the adoption of the shareholder value model disturbs the evolution of industries, especially by increasing the ups and downs at the level of firms' performance in most innovative industries. William Lazonick outlines the rationale for the shareholder value theory and shows that, rooted in agency theory, it lacks a theory of innovative enterprise. He documents how the US stock market interacted with the shareholder value principles of corporate governance to finally render companies more vulnerable when the financial crash occurred in the 2000s. He thus advances key elements for a theory of corporate governance that could succeed in comprehending how and under what conditions the corporate allocation of resources supports or undermines investment in innovation. Perraudin, Petit and Rebérioux investigate the impact of corporate governance on the issue of employment. On the basis of data on French enterprises, they show that corporate governance – for listed companies where the identity of shareholders can be accessible – is indeed a determinant of human resource management practices and shapes these practices to a large extent. Especially, the development of shareholder value principles of corporate governance involves a drastic modification of the working conditions towards greater flexibility and subcontracting, and on the overall towards a better adequacy with profitability requirements of the stock market. Finally, the last contribution, by Andrew Tylecote and Paulina Ramirez, adopts the view of the evolution of systems of corporate governance in a long wave perspective. They argue that, unlike what is generally advocated in the literature or observed in some countries like the US, the shareholder value vision of corporate governance is still extremely vivid in the UK, despite the important lessons that could have been drawn from the financial crash. For the authors, the absence of a new model of corporate governance

[2] See the reference to their earlier contributions above.

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contesting the old one based on shareholder value principles is extremely prejudicial to the UK economy in the future.

These five contributions do not exhaust questions from the development of the new economics of corporate governance. However they provide some important guidelines that can structure the future agenda on corporate governance in advanced economies at a time of the post financial crash era.

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