

# Contents

<b>1</b>	<b>Introduction</b>	<b>3</b>
<b>2</b>	<b>Corporate Governance Systems—The Gap between the Descriptive and the Formal Literature</b>	<b>9</b>
2.1	Comparative Corporate Governance	9
2.2	Models and Econometrics—A Selective Survey	13
2.2.1	Governing Agency Conflicts with Incentive Pay	13
2.2.2	Governing Agency Conflicts with Takeovers	30
<b>3</b>	<b>Modeling Complementarities in Corporate Governance</b>	<b>53</b>
3.1	Trade-Offs in Governing One Agency Conflict	54
3.1.1	Varying Information Asymmetries: The Impact of Monitoring on the Distribution of Risk	57
3.1.2	Varying Differences in Risk Sensitivity: The Impact of the Ownership Structure	64
3.1.3	The Capital Structure as a Complementary Governance Instrument	73
3.1.4	Discussion of the Related Literature	80
3.1.5	Conclusions and Extensions	83
3.2	Simultaneously Optimizing over Several Agency Problems	87
3.2.1	The Model	88
3.2.2	Complementarities and Comparative Statics	102
3.2.3	Conclusions and Possible Extensions	109
<b>4</b>	<b>Comparing Corporate Governance Systems</b>	<b>111</b>
4.1	Regulatory and Institutional Framework	112
4.2	Governance Instruments	119
4.3	Empirical Evidence on the Performance of Governance Instruments	135
4.4	Conclusion	157
<b>5</b>	<b>Systemic Complementarities</b>	<b>161</b>

X *Contents*

5.1	Corporate Governance in the United States as a System of Complementary Elements	166
5.2	Complementarities in Japanese Corporate Governance	172
5.3	Complementarities in German Corporate Governance	183
<b>6</b>	<b>Conclusions</b>	<b>193</b>
	<b>Mathematical Appendices</b>	<b>198</b>
	<b>References</b>	<b>211</b>
	<b>Index</b>	<b>232</b>

## List of Tables

<i>Table 1: Stylized Characteristics of Alternative Models of Corporate Governance</i>	12
<i>Table 2: Successful Takeovers in the United States, 1926–1996</i>	45
<i>Table 3: Expected Certainty-Equivalent Payoffs</i>	92
<i>Table 4: The Bankruptcy Regime in the United States, Japan, and Germany</i>	117
<i>Table 5: Stock Market Capitalization, 1981–1997</i>	120
<i>Table 6: Stock Market Liquidity, 1981–1997</i>	121
<i>Table 7: Stock Market Concentration Indicators, 1988–1997</i>	121
<i>Table 8: Ownership Concentration in Large Firms</i>	122
<i>Table 9: Ownership Patterns in 1995</i>	124
<i>Table 10: Sources of Financing of Non-Financial Enterprises in the United States, Japan, and Germany, 1981–1995</i>	127
<i>Table 11: Main Differences between the U.S. and the German and Japanese Systems of Corporate Governance</i>	163

## List of Figures

<i>Figure 1: Expected Shareholder Payoff as a Function of (the Inverse of) Monitoring</i>	62
<i>Figure 2: Optimal Ownership Stake with Monitoring</i>	71
<i>Figure 3: Time Path of the Model</i>	91
<i>Figure A1: Sublattices of <math>\mathbb{R}^2</math> under the Component-Wise Natural Ordering</i>	208
<i>Figure A2: 2-Dimensional Sets That Are Not Lattices</i>	208