

# Contents

Preface	xiii
1. Introduction	1
International Differences in Corporate Governance	4
The Future of Corporate Governance Structures	6
2. Limited Liability Companies in Modern Economies	9
Advantages and Disadvantages of Limited Liability	9
International Differences in Corporate Governance Structures	12
Conclusions	34
3. Corporate Governance, Corporate Objectives, and Company Performance	38
A Theoretical Framework	38
The Commitment to Permanent Employment	42
Executive Compensation	46
Governance, Capital, and Labor	46
4. Conclusions and Policy Recommendations	72
Globalization of Production	72
Global Integration of Financial Markets	74
Fundamental Aspects of Corporate Governance	80
Equitable Access in Corporate Takeovers?	81
Implications for Developing Countries and Former Centrally Planned Economies	83

Comments	87
Colin Mayer	87
Michael E. Porter	92
Appendix: Comparison of Corporate Governance Structures	97
References	125
Index	133
Tables	
2-1. Directors Promoted from among Employees, Japan and United States, 1986	14
2-2. Number of Listed Companies and Market Capitalization of Domestic Equity as Percent of GDP, Five Countries, 1990	21
2-3. Stock Ownership in U.S., Japanese, and German Industry, by Type of Owner, 1991-92	22
2-4. Ownership of Publicly Listed Corporations in Four Countries, by Sector, 1990-91	22
2-5. Ownership Concentration in Large Nonfinancial Corporations, Four Countries, 1970s-1990	25
2-6. Distribution of Largest Shareholders in U.S. and Japanese Companies, by Category, 1988	26
2-7. Prevalence of Stable Shareholders and Interlocking Shareholdings in Japanese Companies, 1990	26
3-1. Most Important Management Objectives of Large U.S. and Japanese Companies, 1988	40
3-2. Most Important Concerns of Shareholders According to Management of Large U.S. and Japanese Companies, 1988	43
3-3. Most Likely Means to Overcome Deterioration of Business, U.S. and Japanese Companies, 1988	44
3-4. Preferred Means of Cutting Labor Costs, U.S. and Japanese Companies, 1988	45
3-5. Standard Deviation of Changes in Manufacturing Production, Employees, Working Hours, and Labor Input, United States, Japan, and Germany, 1961-69, 1970-79, 1980-91	45
3-6. Attitudes toward Profitability and Starting a New Line of Business, U.S. and Japanese Companies, 1988	59

3-7. Assembly Plant Characteristics of Volume Auto Producers, by Region, 1989	61
3-8. Index of Production Worker and Office Worker Wages in Three Industrialized Countries, by Age	65
3-9. Duration of Employment with One Company in Japan and the United States, by Age and Sex, 1980s	67
3-10. Male Employees in Japan Who Have Never Changed Jobs, by Age, Sector, and Educational Attainment, 1980-85	68
3-11. Average Hours Worked per Year by Workers in Five Industrial Countries, 1980, 1985, 1990	68
4-1. Direct Investment Flows of Ten Major Countries, 1971-80, 1981-90	82

### Figures

3-1. Real After-Tax Cost of Debt, Four Advanced Industrial Countries, 1977-92	52
3-2. Estimated Real Cost of Equity, Four Advanced Industrial Countries, 1977-92	54
3-3. Debt-Market Equity Ratios, Four Advanced Industrial Countries, 1977-92	55
3-4. Real After-Tax Cost of Funds, Four Advanced Industrial Countries, 1977-92	57
3-5. User Cost of Capital for Two Types of Investment, Four Advanced Industrial Countries, 1977-91	58