Reform and Repercussion

As has already been highlighted, efforts to reform corporate governance began in the USA in the 1970s, as a challenge to self-interested directors who regularly neglected minority shareholder interests (Lauren, 1999). Such reform resulted in a string of hostile take-overs, the dismissal of many directors, and the emergence of various publications exemplifying the Principles of Corporate Governance by the American Law Institute, in order to instruct directors on proper management techniques. Moreover, since 1988, investor activism has gained momentum, publicly attacking inefficient companies. As a consequence, investors have become a recognized social force, but their initiative has moved progressively from public criticism to private dialogue, which has led to a new criticism of an overly ‘chummy relationship’ between the corporation and institutional investors. The trend of intimacy spread to the UK where, on the eve of corporate scandals involving purported false financial reporting in the company Polly Peck, Robert Maxwell’s embezzlement from his own pension fund, BCCI and other companies’ wrongdoings, a nineteen-point code of best practice for improving corporate governance was published, intended for adoption by those companies listed on the London Stock Exchange (Cadbury, 1992).

Efforts to reform corporate governance have also been pursued in Japan, Germany, France and other developed societies. A series of scandals involving large German companies, such as the mining giant Metalgesellschaft, which lost US$1.8 billion through trading on oil futures, and the bankruptcy of Schneider, the largest real-estate property company through lack of management control, brought corporate governance in Germany under public scrutiny. In France, where less spectacular enterprise failures such as that of Navigation Mixte and Suez, came to the surface, demands for reform have still emerged in a society where legislators and business people are struggling with a national culture that has been highly centralized since the time of Napoleon Buonaparte. French reforms have been encapsulated in two influential reports, the Viénot Report of 1993 and the Marini Report of 1996 (Lauren, 1999). Both reports suggest ways of improving directors’ accountability to shareholders. However, on a broader basis, France’s corporate governance movement has attempted to incorporate elements of the Anglo-American model into the French system, while at the
same time developing national solutions to problems unique to the French business landscape (Lauren, 1999).

In the USA, improvements in governance practice have involved the emergence of independent outside directors, the nomination of an independent external audit, and an expansion of the scope of auditing (Boyd, 1996). Additionally, the roles of CEO and board chairperson have been separated, formality has been introduced in the appointment of outside directors, greater rotation of directors has become common practice, the pay and bonuses of both executive and external directors have become the responsibility of the remuneration committee, and the flow of information to the board has increased dramatically.

Such measures, despite particular drawbacks such as the limited availability of appropriate directors (Pomeranz, 1998), are fundamentally responses to perceived deficiencies in current governance arrangements at the enterprise level. However, the broader impact of reform is only just filtering through. Overall, executive discretion to promote shareholder interests, through focusing on short-term objectives to enhance or maintain high share prices, if necessary at the expense of other stakeholders (particularly internal stakeholders), is emerging as the dominant philosophy. The various initiatives and reports, ranging through Cadbury, Hampel, Turnbull, the US Principles of Corporate Governance, the French Viénot and Marini Committees, and the initiatives of the Belgian and Amsterdam stock exchanges, have resulted in an affirmation of the shareholder philosophy of governance.

Germany in particular, has been resistant to such influences, particularly as dominant families control considerable levels of stock, exemplified by the Quandt family’s holding in BMW and their reluctance to sell their shareholding for the purposes of a quick profit. Similarly, in France, when three of France’s biggest banks entered into a take-over battle in 1999, the process was sanctioned and guided by the French Ministry of Finance, which wanted to consolidate the nation’s banking industry.

Further, the French government blocked Coca-Cola’s hostile bid for the acquisition of Orangina, a soft drinks company owned by the French liquor conglomerate Pernod-Ricard (Wallace, 1999). French competition regulators argued that the purchase ‘does not offer enough economic contribution to outweigh the risk of hurting competition’ (ibid., p. 50). Although continental Europe has witnessed a surge of hostile take-over attempts in the two-year period 1998–2000, the only successful bids before the Vodafone victory over Mannesmann were those between competitors within a single European nation (Waters et al., 2000). For much of continental Europe, hostile take-overs were, and probably still are,